

## Appendix 4D For the half-year ended 30 June 2021

**DroneShield Limited**  
**ABN 26 608 915 859**

### 1. Reporting period

The financial information contained in the attached consolidated financial report is for the half-year ended 30 June 2021. The previous corresponding period was the half-year ended 30 June 2020.

Results for announcement to the market				
	Up/ Down	% Movement		2021 \$
<b>Revenue</b> from continuing activities	Up	87%	to	6,709,911
<b>Loss</b> from continuing activities after tax attributable to members	Down	61%	to	(452,416)
<b>Net loss</b> attributable to members	Down	61%	to	(452,416)
<b>Dividends:</b> No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

### 2. Commentary related to the above results

Refer to Directors' Report in the attached half-year report.

### 3. Net Tangible Assets/(Liabilities) per share:

30 June 2021: \$0.05; 31 December 2020: \$0.06.

### 4. There was no change in control during the half-year ended 30 June 2021

### 5. There were no payments of dividends during the half-year

### 6. There is no dividend reinvestment plan in operation

### 7. There are no associates or joint venture entities

### 8. This report is based on the consolidated financial report which has been reviewed by HLB Mann Judd Assurance (NSW) Pty Ltd.

The information contained within this report is to be read in conjunction with DroneShield's 2020 Annual Report and any announcements to the market during the half-year period ending 30 June 2021. Further information regarding the Group and its business activities can be obtained by visiting the Group's website at [www.droneshield.com](http://www.droneshield.com)



**DRONESHIELD**

## **Half Annual Report**

For the Half Year Ended  
30 June 2021

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*Image: DroneShield RfOne MKII™ C-UAS  
sensor on an Australian Army combat vehicle*

**DroneShield Limited (ASX:DRO)**

ASX Release

ABN 26 608 915 859

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# Corporate Information

## Directors & Management

**Peter James** Independent Non-Executive Chairman  
**Jethro Marks** Independent Non-Executive Director  
**Oleg Vornik** CEO and Managing Director

## Registered Office

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Sydney, NSW 2000  
Australia

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Email: [info@dronesshield.com](mailto:info@dronesshield.com)  
Website: [www.dronesshield.com](http://www.dronesshield.com)

## Auditors

**HLB Mann Judd Assurance (NSW) Pty Ltd**  
Level 19, 207 Kent Street  
Sydney, NSW 2000  
Australia

## Bankers

**Commonwealth Bank of Australia**  
309-315 George Street  
Sydney, NSW 2000  
Australia

**Westpac**  
275 Kent Street  
Sydney, NSW 2000  
Australia

**PNC Bank**  
1405 P Street, NW  
Washington DC 20005  
United States of America

## Solicitors

**Baker & McKenzie LLP**  
452 Fifth Avenue  
New York NY 10018  
United States of America

**Steinepreis Paganin**  
16 Milligan Street  
Perth, WA 6000  
Australia

**K&L Gates**  
1601 K Street, NW  
Washington DC 20006  
United States of America

## Share Registry

**Automic Pty Ltd t/a Automic Registry Services**  
267 St Georges Terrace  
Perth WA 6000  
Australia

Enquiries (within Australia): 1300 288 664  
Enquiries (outside Australia): +61 8 9324 2099

## Stock Exchange Listing

DroneShield Limited (ASX code DRO) shares are quoted on the Australian Securities Exchange.

# Directors' Report

Your Directors present their report for DroneShield Limited (the "Company") and its controlled entities (collectively "the Group") for the half-year ended 30 June 2021.

## Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name	Position	Effective date
Peter James	Independent Non-Executive Chairman	Appointed as Independent Non-Executive Chairman 1 April 2016. Served as Executive Chairman from 2 December 2016. Returned to Independent Non-Executive Chairman 24 January 2017.
Jethro Marks	Independent Non-Executive Director	Appointed 16 January 2020.
Oleg Vornik	CEO and Managing Director	Appointed as CEO and Managing Director 24 January 2017.

## Business Overview

DroneShield (ASX:DRO) is an Australian publicly listed company with its head office in Sydney and teams in the US and UK, specialising in counterdrone, Electronic Warfare, RF sensing, Artificial Intelligence and Machine Learning, Sensor Fusion, rapid prototyping and MIL-SPEC manufacturing. Our capabilities are used to protect military, Government, law enforcement, critical infrastructure, commercial and VIPs throughout the world.

DroneShield offers its customers bespoke solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime or airborne platforms.

In its counterdrone business, DroneShield developed and continues to develop security solutions that protect people, organisations and critical infrastructure from intrusion of commercial/consumer grade drones.

DroneShield's unique products use proprietary software and hardware to detect drones in a combination of radio frequency (RF), radar, optical camera, thermal camera-based systems and acoustic sensors to instantly alert users in real-time through multiple channels ensuring any potential threats can be addressed, and (where lawful) interdict drones using smart jamming technologies.

Our product lines currently include the following:

- DroneGun Tactical™ – a portable tactical rifle-shaped drone disruptor;
- DroneGun MKIII™ – a pistol-shaped drone disruptor;
- RfPatrol MKII™ – a body-worn passive RF drone detector;
- DroneSentry-X™ – a vehicle based detect-and-defeat system;
- DroneSentry™ – a multi-sensor (RF, radar, optical and thermal camera, acoustics) drone detection system; combined with automated drone/drone swarm defeat capability and utilising proprietary DroneSentry-C2™ command-and-control sensorfusion software;
- DroneNode™ – a briefcase-style covert drone disruptor;
- DroneCannon RW™ – a drone disruptor for use on remote weapon stations;
- DroneSim™ – counterdrone training and simulation device; and
- CompassOne™ – Real-time MIL-SPEC Location and Direction Sensing for Deployed Assets.

In its rapidly emerging electronic warfare business, DroneShield utilises its cutting-edge Artificial Intelligence signal processing capability to accurately detect, classify and track complex signals. This includes current work on its second contract with the Australian Department of Defence on a 2-year, \$3.8 million contract.



## Review of Operations and Financial Results

The Company announced an all-time record quarter of customer cash receipts for 2Q21 of \$7.4 million. The Group achieved revenue from customers of \$6.6 million for the 1H21, an increase of 113% relative to 1H20 of \$3.1 million.

The net loss after tax for the half-year has rapidly narrowed to \$452k compared to the previous period (corresponding 2020 half year: loss of \$1.2 million).

The cash receipts for orders received during the period, but not yet fulfilled, are recognised under Other Liabilities on the Statement of Financial Position as deferred revenue.

Key highlights include:

- 2Q21 quarterly customer receipts of \$7.4 million, an all-time record, despite COVID-19 slowdown;
- 1H21 customer receipts of \$9.1 million, a 600% growth over 1H20 customer receipts of \$1.3 million;
- \$3.8 million contract with the Australian Department of Defence in Electronic Warfare/Signals Intelligence arena, including the initial \$1.9 million payment received in June 2021;
- Active engagement on the US\$50 million Middle Eastern contract continues;
- Diversity in the customer cash receipts, including substantial Australian, US and Middle Eastern payments, across multiple product lines, as well as R&D work;
- Positive 2Q21 cashflow quarter, with cash and term deposits of \$14.2 million as at 30 June 2021;
- \$190 million global sales pipeline, across a number of key markets and products, in a \$6bn total addressable market;
- Substantial inventory acquisition to mitigate supply chain delay risks. \$10 million of inventory, by sale value, on hand as at 30 June 2021, to meet near term pipeline requirements;
- DroneSentry-X™ on-the-go C-UAS system has successfully completed US Navy, Department of Homeland Security and other key agency trials, along with successful UK MOD evaluations;
- 50 staff globally as at 30 June 2021, including engineering hires in Australia, and sales and field support hires in the US. Additional hiring continuing opportunistically;
- Highly favourable macro environment for DroneShield, with rapidly rising counterdrone expenditure globally, and ongoing increase in local defence capability by the Australian Government.

During the period, DroneShield continued to move into the SaaS space through the use of subscription pricing models on a range of products, as well as further towards software work (especially in the defence signal processing space), in addition to the more traditional hardware sales. Over time, the software/SaaS business is expected to account for the majority of the Group's earnings.

### Significant Events after the Balance Date

Subsequent to 30 June 2021, the following occurred;

- 5 July 2021
  - 2,459,384 ZEPOs with an expiry date of 17 October 2021 vested, due to the Company reaching the milestone of \$10 million in customer cash receipts within a 12-month rolling period.
  - 2,459,384 ZEPOs with an expiry date of 31 October 2024 lapsed, due to the ZEPOs referenced above vesting.
  - 21,000,000 ZEPOs with an expiry date of 15 August 2021 lapsed, due to their vesting criteria not being met prior to the end of their vesting period.
- 12 July 2021
  - 2,459,384 ZEPOs were exercised into shares.
  - 2,100,000 unlisted options were exercised by employees using the limited recourse loan provided by the Company.
- 30 July 2021
  - 200,000 unlisted and vested Class T options were issued to employees. Each are exercisable at \$0.20 per option and expire on 31 October 2021.
- 11 August 2021
  - The research and development tax incentive of \$1,087,833, in relation to expenses incurred in the 31 December 2020 financial year, was received.
- 12 August 2021
  - 20,000 unlisted and vested Class T options were issued to employees. Each are exercisable at \$0.20 per option and expire on 31 October 2021.
  - 1,000,000 unlisted options were cancelled.
- 16 August 2021
  - 19,000,000 ZEPOs with an expiry date of 31 August 2024 vested due to the Company reaching the milestone of \$10 million in customer cash receipts within a 12-month rolling period.
  - 19,000,000 ZEPOs were exercised.
  - 220,000 unlisted options were exercised by employees using the limited recourse loan provided by the Company.

No other matter or circumstance has arisen since 30 June 2021 which has significantly affected or may significantly affect:

- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 6.

This Directors' Report is made in accordance with a resolution of Directors.

Peter James  
Independent Non-Executive Chairman

Sydney, NSW  
31 August 2021



### Auditor's Independence Declaration

To the directors of DroneShield Limited:

As lead auditor for the review of the financial report of DroneShield Limited for the half-year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of DroneShield Limited and the entities it controlled during the period.

Sydney, NSW  
31 August 2021

A handwritten signature in black ink, appearing to read 'N J Guest'.

N J Guest  
Director

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HLB Mann Judd is a member of HLB International, the global advisory and accounting network.



## Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	30 June 2021 \$	30 June 2020 \$
<b>Revenue</b>	<b>2</b>	<b>6,709,911</b>	<b>3,593,897</b>
Other income	3	279,699	234,095
Cost of sales		(1,717,005)	(962,846)
Product development expense		(2,256,862)	(1,493,470)
Sales and customer service expense		(1,474,449)	(880,868)
Corporate and support expense	4	(2,605,877)	(1,058,110)
Corporate governance expense	5	(313,324)	(204,676)
Share based payment expense	6	925,491	(1,283,356)
<b>Loss before income tax</b>		<b>(452,416)</b>	<b>(2,055,334)</b>
Income tax benefit	7	-	883,592
<b>Loss after income tax</b>		<b>(452,416)</b>	<b>(1,171,742)</b>
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		62,043	(15,815)
<b>Total comprehensive loss for the period</b>		<b>(390,373)</b>	<b>(1,187,557)</b>
Basic loss per share (cents per share)	20	(0.12)	(0.46)
Diluted loss per share (cents per share)	20	(0.12)	(0.46)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

	Note	30 June 2021 \$	31 December 2020 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	13,475,590	7,858,738
Trade and other receivables	9	2,135,319	3,710,494
Inventories	10	4,463,454	2,018,279
Other investments	11	775,000	8,430,034
<b>Total current assets</b>		<b>20,849,363</b>	<b>22,017,545</b>
<b>Non-current assets</b>			
Plant, equipment and intangible assets	12	801,347	874,115
Right-of-use assets	13	52,660	236,973
<b>Total non-current assets</b>		<b>854,007</b>	<b>1,111,088</b>
<b>Total assets</b>		<b>21,703,370</b>	<b>23,128,633</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		859,709	884,363
Provisions	14	254,417	184,007
Other liabilities	15	1,913,809	1,994,265
Borrowings	16	111,971	107,043
Lease liabilities	17	144,010	135,461
<b>Total current liabilities</b>		<b>3,283,916</b>	<b>3,305,139</b>
<b>Non-current liabilities</b>			
Provisions	14	28,969	-
Borrowings	16	-	42,953
Lease liabilities	17	116,916	191,108
<b>Total non-current liabilities</b>		<b>145,885</b>	<b>234,061</b>
<b>Total liabilities</b>		<b>3,429,801</b>	<b>3,539,200</b>
<b>Net assets</b>		<b>18,273,569</b>	<b>19,589,433</b>
<b>EQUITY</b>			
Share capital	18	36,983,156	37,283,293
Reserves		6,778,598	7,765,812
Accumulated losses		(25,488,185)	(25,459,672)
<b>Total equity</b>		<b>18,273,569</b>	<b>19,589,433</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

	Contributed equity \$	Options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 January 2021</b>	<b>37,283,293</b>	<b>7,777,980</b>	<b>(12,168)</b>	<b>(25,459,672)</b>	<b>19,589,433</b>
Transfer from option reserve to accumulated losses	-	(123,766)	-	123,766	-
<i>Transactions with owners in their capacity as owners:</i>					
Net share-based payments movement	-	(925,491)	-	-	(925,491)
Equity transaction costs	(300,137)	-	-	300,137	-
	(300,137)	(925,491)	-	300,137	(925,491)
Exchange difference on translation of foreign operations	-	-	62,043	-	62,043
Loss for the period	-	-	-	(452,416)	(452,416)
Total comprehensive loss for the period	-	-	62,043	(452,416)	(390,373)
<b>Balance at 30 June 2021</b>	<b>36,983,156</b>	<b>6,728,723</b>	<b>49,875</b>	<b>(25,488,185)</b>	<b>18,273,569</b>
<b>Balance at 1 January 2020</b>	<b>21,012,607</b>	<b>6,157,367</b>	<b>(22,090)</b>	<b>(20,496,771)</b>	<b>6,651,113</b>
Transfer from option reserve to accumulated losses	-	(400,309)	-	400,309	-
<i>Transactions with owners in their capacity as owners:</i>					
Net share-based payments movement	-	1,283,356	-	-	1,283,356
Contributions of equity, net of transaction costs	9,240	-	-	-	9,240
Repayment of management/ employee option exercise loan	170,791	-	-	-	170,791
	180,031	1,283,356	-	-	1,463,387
Exchange difference on translation of foreign operations	-	-	(15,815)	-	(15,815)
Loss for the period	-	-	-	(1,171,742)	(1,171,742)
Total comprehensive loss for the period	-	-	(15,815)	(1,171,742)	(1,187,557)
<b>Balance at 30 June 2020</b>	<b>21,192,638</b>	<b>7,040,414</b>	<b>(37,905)</b>	<b>(21,268,204)</b>	<b>6,926,943</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

	Note	30 June 2021 \$	30 June 2020 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		9,120,724	1,331,919
Payments to suppliers and employees		(11,104,028)	(4,425,581)
Research and Development Tax and other incentives received		112,970	1,239,361
<b>Net cash flows used in operating activities</b>		<b>(1,870,334)</b>	<b>(1,854,301)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(172,569)	(354,404)
Proceeds from Investments		7,655,034	-
<b>Net cash flows from (used in) investing activities</b>		<b>7,482,465</b>	<b>(354,404)</b>
<b>Cash flows from financing activities</b>			
Interest income on cash deposits		32,639	17,198
Proceeds from borrowings		-	750,368
Borrowings transaction costs		-	(12,000)
Payments for lease liabilities		(65,060)	(67,664)
Repayment of management/ employee limited recourse loan		-	170,791
<b>Net cash flows from (used in) financing activities</b>		<b>(32,421)</b>	<b>858,693</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>7,858,738</b>	<b>5,485,000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>5,579,710</b>	<b>(1,350,012)</b>
<b>Exchange rate adjustments to balances held in foreign currencies</b>		<b>37,142</b>	<b>(66,156)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>13,475,590</b>	<b>4,068,832</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard ("AASB") 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in the annual financial report and should be read in conjunction with the most recent annual financial report (being that for the year ended 31 December 2020), and any public announcements made by the Company during the reporting period.

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

#### Going Concern

This consolidated financial report has been prepared on the basis that the Group will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

During the half-year ended 30 June 2021, the Group incurred a loss after income tax of \$452,416 and net cash outflows from operating activities of \$1,870,334, with cash on hand and term deposits at 30 June 2021 of \$14,250,590. At 30 June 2021, the Group had net assets of \$18,273,569 and an excess of current assets over current liabilities of \$17,565,447.

A cash flow forecast for the next 12 months prepared by management has indicated that the Group will have sufficient cash assets and term deposits to be able to meet its debts as and when they are due, and therefore the financial statements have been prepared on a going concern basis.

### (b) New accounting standards and interpretations

DroneShield has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

There are no new Accounting Standards or interpretations that have been published, but not yet mandatory, that are expected to have a material impact on the Group.

# Notes to the Financial Statements *continued*

	30 June 2021 \$	30 June 2020 \$
<b>2. Revenue</b>		
Demonstration revenue	-	16,455
Hardware sales	4,232,441	2,960,194
Research and development revenue	2,210,200	-
Shipping revenue	129,054	75,949
Subscription services	57,577	15,902
<b>Total revenue from sales</b>	<b>6,629,272</b>	<b>3,068,500</b>
The Group derives its revenue from the transfer of goods and services over time and at a point in time. This is consistent with the revenue information that is disclosed for each reportable segment (see Note 23).		
<b>Timing of revenue recognition</b>		
<b>At a point in time</b>		
Hardware sales including shipping income		
- direct sales	1,781,570	760,108
- distributors	2,579,925	2,292,490
Research and development revenue		
- direct sales	2,210,200	-
<b>Over time</b>		
Subscription services		
- direct sales	25,752	-
- distributors	31,825	15,902
<b>Total revenue from sales</b>	<b>6,629,272</b>	<b>3,068,500</b>
<b>Other revenue</b>		
Interest revenue	32,639	17,198
Other revenue	-	508,199
Sublease revenue	48,000	-
<b>Total other revenue</b>	<b>80,639</b>	<b>525,397</b>
<b>Total revenue</b>	<b>6,709,911</b>	<b>3,593,897</b>
<b>3. Other income</b>		
Awards and incentives income	242,853	356,590
Net foreign exchange gains (losses)	36,846	(122,495)
<b>Total other income</b>	<b>279,699</b>	<b>234,095</b>
<b>4. Corporate and support expense</b>		
Legal	362,162	74,751
Office costs and communication	509,352	127,890
Other	270,526	198,462
Payroll	830,880	530,637
Professional expenses	618,409	120,468
Travel and entertainment	14,548	5,902
<b>Total corporate and support expense</b>	<b>2,605,877</b>	<b>1,058,110</b>



## Notes to the Financial Statements *continued*

	30 June 2021 \$	30 June 2020 \$
<b>5. Corporate governance expense</b>		
ASX fees	40,098	12,066
Board and Advisory Board expenses	120,453	66,770
Insurance	71,787	61,679
Other	40,168	35,961
Professional expenses	40,818	28,200
<b>Total corporate governance expense</b>	<b>313,324</b>	<b>204,676</b>

### 6. Options issued

During the half-year ended 30 June 2021, a number of options were issued to Directors, management and other employees of the Group as well as to brokers participating in the Share Placement that occurred in August 2020. In addition to this, a number of options did not meet the vesting conditions during the period. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The number of options in the table below excludes options that were issued and then cancelled during the period.

	Class T Options	Class U Options	Class V Options Note (a)	Class W Options	Zero Price Options Note (b)	Other Options Note (c)	Total option expense for the period Note (d)
<b>No of new options</b>	3,350,000	500,000	5,000,000	450,000	21,459,384		
<b>Expiry (years)</b>	0.39	3.01	3.00	3.00	3.37		
<b>Exercise price (\$)</b>	0.20	0.25	0.25	0.20	0		
<b>Vesting period (years)</b>	0.00	0.00	0.00	0.00	0.33		
<b>Underlying volatility</b>	70%	70%	70%	70%	n/a		
<b>Risk free interest rate</b>	0.06%	0.14%	0.10%	0.14%	n/a		
<b>Calculated fair value of each option (\$)</b>	0.0203	0.0664	0.0600	0.0651	0.178		
<b>Total expense recorded for the period ended 30 June 2021 (\$)</b>	<b>61,374</b>	<b>33,179</b>	<b>-</b>	<b>29,213</b>	<b>1,530,502</b>	<b>(2,579,759)</b>	<b>(925,491)</b>

Note (a): Class V options were issued to brokers as part of the August 2020 capital raise and included as part of share transaction costs which is treated as a deduction from equity of \$300,137 (see Note 18).

## Notes to the Financial Statements *continued*

### 6. Options issued *continued*

Note (b): 19,000,000 of the Zero Price Options ("ZEPOs") was issued to Directors and shall vest and become exercisable into Shares at any time on or after 16 August 2021. 2,459,384 of the ZEPOs was issued to management and employees and shall vest on or after 18 October 2021.

The options are subject to the following vesting conditions being satisfied: DroneShield achieving \$10,000,000 of revenue or customer cash receipts in any rolling twelve-month period within 36 months of the date of the issue of the Options. Each Option will automatically lapse if the vesting conditions attaching to the Tranche 1 ZEPOs, issued in 2018, are satisfied.

As there is no exercise price and no near-term expectations of dividends for DroneShield, the value of the option (excluding the impact of vesting conditions) determined using Black Scholes is equivalent to the price of a DroneShield share. The value of the Options is based on the spot price of a DroneShield share on the date at which the options were issued. Based on existing orders, management estimate that the options will vest within the expiry period.

Note (c): \$2,579,759 comprises of a credit for Tranche 1 ZEPOs (issued in 2018) and a vesting expense for Tranche 2 ZEPOs and Class Q options (issued in 2019 and 2020). The expense recognised in prior periods for Tranche 1 ZEPOs was credited due to the vesting conditions not being met within 36 months from the date of issue of the Tranche 1 ZEPOS. Refer to 2020 Annual Report for details of options issued in prior periods.

Note (d): During the half year, limited-recourse loans were issued to certain employees and directors, where the company provided interest free loans for conversion of options previously issued by the company. In total, 4,566,666 options were converted into ordinary shares, at various exercise prices. The loans are due for repayment within 5 years from the date of inception. The loans are non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates. Non-recourse loans issued are treated as a modification of the option under the Accounting Standards. No additional expense has been recognised in relation to these modifications.

30 June 2021 \$	30 June 2020 \$
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### 7. Income taxes relating to continuing operations

The components of tax recognised in profit or loss include:

Current tax	-	-
Deferred tax	-	-
Research and Development Tax Incentive	-	(883,592)
<b>Total tax credit</b>	-	<b>(883,592)</b>

The research and development tax incentive of \$883,592 was received in the first half of the prior year. The research and development tax incentive of \$1,087,833 in relation to expenses incurred in the 31 December 2020 financial year was received on 11 August 2021. This was included in income tax revenue subsequent to period end. Refer to Note 25.

## Notes to the Financial Statements *continued*

	30 June 2021 \$	31 December 2020 \$
<b>8. Cash and cash equivalents</b>		
Cash at bank and in hand	10,376,009	4,158,819
Short-term deposits	3,099,581	3,699,919
<b>Total cash and cash equivalents</b>	<b>13,475,590</b>	<b>7,858,738</b>
<b>9. Trade and other receivables</b>		
Trade receivables	590,272	2,669,714
Deferred sales proceeds (see Note 15)	505,235	816,438
Prepayments	1,039,812	224,342
<b>Total trade and other receivables</b>	<b>2,135,319</b>	<b>3,710,494</b>
Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised a provision for expected credit losses because there has not been a significant change in credit quality and the amounts are still considered recoverable.		
<i>Age of receivables that are past due but not impaired.</i>		
>120 days	8,004	2,363,746
Payment for shipping revenue is due from the customer as per the terms specified in the contract.		
<b>10. Inventories</b>		
Raw materials	535,030	-
Work in progress	836,063	736,238
Consignment	134,348	-
Finished goods inventory at cost	2,958,013	1,282,041
<b>Total inventories</b>	<b>4,463,454</b>	<b>2,018,279</b>
<b>11. Other investments</b>		
Term Deposits	775,000	8,430,034
<b>Total investments</b>	<b>775,000</b>	<b>8,430,034</b>

Term deposits have interest rates of 0.60% to 0.70% and mature in less than 12 months.

## Notes to the Financial Statements *continued*

### 12. Plant, equipment and intangible assets

	Development equipment \$	Demonstration equipment \$	Office equipment \$	Plant & equipment \$	Intangible Assets (software) \$	Vehicles and trailers \$	Total \$
<b>Balance at 1 January 2021</b>	<b>129,714</b>	<b>175,247</b>	<b>115,303</b>	<b>274,656</b>	<b>138,989</b>	<b>40,206</b>	<b>874,115</b>
Additions	44,163	6,087	57,290	77,607	-	14,785	199,932
Disposals	(6,478)	(2,698)	(4,230)	-	-	(2,159)	(15,565)
Transfer from (to) inventory	(135,141)	65,364	-	-	-	-	(69,777)
Depreciation	-	(79,545)	(48,897)	(47,083)	(9,311)	(7,327)	(192,163)
Exchange differences	-	1,432	258	-	3,115	-	4,805
<b>Balance at 30 June 2021</b>	<b>32,258</b>	<b>165,887</b>	<b>119,724</b>	<b>305,180</b>	<b>132,793</b>	<b>45,505</b>	<b>801,347</b>

	Cost \$	Accumulated depreciation \$	Carrying value \$
Development equipment	32,258	-	32,258
Demonstration equipment	789,369	(623,482)	165,887
Office equipment	305,732	(186,008)	119,724
Plant & Equipment	477,219	(172,039)	305,180
Vehicles and Trailers	145,139	(12,346)	132,793
Intangible Assets (software)	75,655	(30,150)	45,505
<b>Balance at 30 June 2021</b>	<b>1,825,372</b>	<b>(1,024,025)</b>	<b>801,347</b>
Development equipment	129,714	-	129,714
Demonstration equipment	762,499	(587,252)	175,247
Office equipment	272,707	(157,404)	115,303
Plant & Equipment	399,612	(124,956)	274,656
Vehicles and Trailers	141,952	(2,963)	138,989
Intangible Assets (software)	63,344	(23,138)	40,206
<b>Balance at 31 December 2020</b>	<b>1,769,828</b>	<b>(895,713)</b>	<b>874,115</b>

### 13. Right-of-use asset

<b>Balance at 1 January 2021</b>	<b>236,973</b>
Impairment	(131,652)
Depreciation	(52,661)
<b>Balance at 30 June 2021</b>	<b>52,660</b>

Notes to the Financial Statements *continued*

	30 June 2021 \$	31 December 2020 \$
<b>14. Provisions</b>		
Current		
- Annual leave	254,417	184,007
Non-current		
- Long-service leave	28,969	-
<b>Total provisions</b>	<b>283,386</b>	<b>184,007</b>
<b>15. Other liabilities</b>		
Accrued expenses	409,441	132,299
Deferred revenue		
- Hardware sales	932,751	1,646,614
- Subscription services	405,707	212,851
- Research and development revenue	157,110	-
- Other revenue	-	2,501
Other liabilities	8,800	-
<b>Total other liabilities</b>	<b>1,913,809</b>	<b>1,994,265</b>
<b>16. Borrowings</b>		
<b>Unsecured borrowing at amortised cost</b>		
Insurance Premium Finance	111,971	21,136
Paycheck Protection Program Term Note (Note a)	-	128,860
<b>Total borrowings</b>	<b>111,971</b>	<b>149,996</b>
Amount due for settlement within 12 months	111,971	107,043
Amount due for settlement after 12 months	-	42,953
Note (a): The Company received loan proceeds of US\$99,600 from the US Government, under the Paycheck Protection Program ("PPP") during the year ended 31 December 2020. The loan was used for qualifying expenses that met the conditions for forgiveness. During the half year, the loan was forgiven and the proceeds of the loan recognised in other income.		
<b>17. Lease liabilities</b>		
Amounts due for settlement within 12 months	144,010	135,461
Amounts due for settlement after 12 months	116,916	191,108
<b>Total lease liabilities</b>	<b>260,926</b>	<b>326,569</b>

These liabilities were measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 9%.

## Notes to the Financial Statements *continued*

### 18. Contributed equity

	No. of shares (Note a)	\$
<b>Balance at beginning of period (1 January 2021)</b>	<b>389,880,102</b>	<b>37,283,293</b>
Shares issued following option exercise during period (Note b)	4,566,666	-
Transaction costs in relation to Shares issued from Share Placement (Note c)	-	(300,137)
<b>Balance at end of period (30 June 2021)</b>	<b>394,446,768</b>	<b>36,983,156</b>

Note (a): The number of shares disclosed is the number of shares in DroneShield Limited.

Note (b): During the half year, limited-recourse loans were issued to certain employees and director, where the company provided interest free loans for conversion of options previously issued by the company into shares. The loans are due for repayment within 5 years from the date of inception. The loans are non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates.

Note (c): Included within transaction costs is the value of options issued to brokers of \$300,137. The assumptions used in valuing these options has been set out in Note 6.

### 19. Shares and options

	Number of Shares	Number of Unlisted Options
<b>Opening balances at 1 January 2021</b>	<b>389,880,102</b>	<b>48,712,950</b>
Options exercised during the period	4,566,666	(4,566,666)
Options cancelled prior to vesting	-	(166,667)
Options cancelled after vesting	-	(183,333)
Options lapsed during the period	-	(2,471,066)
Options issued to brokers	-	5,000,000
Options issued to Directors, Management and Employees	-	25,809,384
<b>Closing balance at 30 June 2021</b>	<b>394,446,768</b>	<b>72,134,602</b>

#### Unlisted Options

25,809,384 Unlisted Options were issued to Directors, Management and employees during the half year to 30 June 2021. These Options are subject to various vesting conditions relating to length of employment with the Company and performance of the Company. See Note 6 for further details.

5,000,000 Class V Options were issued to Peloton Capital Pty Ltd (or its nominee) as part of their compensation for acting as Lead Manager for the Share Placement that occurred in August 2020. These options have an exercise price of \$0.25 and expire on 27 May 2024.



## Notes to the Financial Statements *continued*

### 20. Earnings (loss) per share

	30 June 2021 \$	30 June 2020 \$
(a) <b>Basic earnings (loss) per share</b>		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.12)	(0.46)
(b) <b>Dilutive earnings per share</b>		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.12)	(0.46)
(c) <b>Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	390,384,706	252,462,135

#### Options

Unlisted Options on issue (refer to Note 19) are not included in the calculation of diluted earnings per share because they are considered to be antidilutive (increase shareholders earnings per share) for the period ended 30 June 2021. These options and shares could potentially dilute basic earnings per share in future periods.

### 21. Contingent liabilities

A former supplier of the Group ("the plaintiff") has filed a civil lawsuit against the Group for alleged breaches of contract and misappropriation of trade secrets. Based on legal advice received, the directors consider that:

- the plaintiff does not have a case; and
- there is a low likelihood that the Group will incur any material adverse financial effect.

### 22. Commitments

At 30 June 2021, contractual agreements existed to pay suppliers \$2,649,230 for the manufacturing of inventory.

## Notes to the Financial Statements *continued*

### 23. Segment information

The following tables present certain information regarding geographical segments for the half-years ended 30 June 2021 and 30 June 2020.

Segment performance 30 June 2021	USA \$	UK \$	Australia \$	Elimination \$	Total \$
Hardware sales including shipping income					
- direct sales	2,245,859	-	334,066	-	2,579,925
- distributors	356,306	-	1,425,264	-	1,781,570
Subscription services					
- direct sales	-	-	25,752	-	25,752
- distributors	11,910	-	19,915	-	31,825
Research and development revenue					
- direct sales	-	-	2,210,200	-	2,210,200
Total revenue from customers	2,614,075	-	4,015,197	-	6,629,272
Other revenue	340	-	80,299	-	80,639
<b>Total revenue</b>	<b>2,614,415</b>	<b>-</b>	<b>4,095,496</b>	<b>-</b>	<b>6,709,911</b>
Other income (losses)	144,749	-	134,950	-	279,699
Depreciation	(26,678)	(1,874)	(216,272)	-	(244,824)
Loss after income tax expense	1,562,316	(5,191)	(2,009,541)	-	(452,416)
<b>Assets and liabilities</b>					
Segment assets	2,522,359	2,901	26,076,397	(6,898,287)	21,703,370
Segment liabilities	(6,870,357)	(312,107)	(3,145,624)	6,898,287	(3,429,801)
<b>Segment performance 30 June 2020</b>	<b>USA \$</b>	<b>UK \$</b>	<b>Australia \$</b>	<b>Elimination \$</b>	<b>Total \$</b>
Hardware sales including shipping income					
- direct sales	473,748	-	286,360	-	760,108
- distributors	-	-	2,292,490	-	2,292,490
Subscription services					
- direct sales	-	-	15,000	-	15,000
- distributors	902	-	-	-	902
Total revenue from sales	474,650	-	2,593,850	-	3,068,500
Other revenue	-	-	525,397	-	525,397
<b>Total revenue</b>	<b>474,650</b>	<b>-</b>	<b>3,119,247</b>	<b>-</b>	<b>3,593,897</b>
Other income (losses)	21,891	-	212,204	-	234,095
Depreciation	(68,760)	(1,447)	(286,692)	-	(356,899)
Loss after income tax expense	(182,258)	(152,559)	(836,925)	-	(1,171,742)
<b>Assets and liabilities</b>					
Segment assets	703,719	6,921	14,640,774	(5,798,328)	9,553,086
Segment liabilities	(5,821,584)	(291,097)	(2,311,790)	5,798,328	(2,626,143)

The Group operates in one operating segment, being the development and commercialisation of hardware and software technology for drone detection and security.

This operating segment is monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision maker of the Group is the CEO.

## Notes to the Financial Statements *continued*

### 24. Impact of COVID-19

During March 2020, COVID-19 was declared a pandemic by the World Health Organisation and has had a significant impact on domestic and global markets and economies. The impact of the COVID-19 pandemic, which continues to evolve on a daily basis, has significantly affected market volatility, exchange rates, supply chains, consumer demand, liquidity and credit conditions and unemployment rates and in a bid to curtail the spread of COVID-19, travel, trade and social restrictive measures have been imposed by the Australian Government.

The majority of the Group's customers are Military and Government agencies which have remained substantially unaffected by COVID-19, thereby reducing the project pipeline exposure of DroneShield. Whilst there were delays in some customer procurement processes, there were no cancellations of any customer orders for DroneShield's products, nor did any potential customer decline to purchase the Company's products.

While there were some delays in the supply chain process, these delays were substantially resolved, resulting in no material impact on the manufacturing process.

The Directors are managing and monitoring the Group's operations closely in response to COVID-19 which continues to evolve on a daily basis. The extent of the impact COVID-19 may have on the Group's future financial performance and position is currently not known given the degree of uncertainty in the current climate.

### 25. Events after the reporting date

Subsequent to 30 June 2021, the following occurred;

- 5 July 2021
  - 2,459,384 ZEPOs with an expiry date of 17 October 2021 vested, due to the Company reaching the milestone of \$10 million in customer cash receipts within a 12-month rolling period.
  - 2,459,384 ZEPOs with an expiry date of 31 October 2024 lapsed, due to the ZEPOs referenced above vesting.
  - 21,000,000 ZEPOs with an expiry date of 15 August 2021 lapsed, due to their vesting criteria not being met prior to the end of their vesting period.
- 12 July 2021
  - 2,459,384 ZEPOs were exercised into shares.
  - 2,100,000 unlisted options were exercised by employees using the limited recourse loan provided by the Company.
- 30 July 2021
  - 200,000 unlisted and vested Class T options were issued to employees. Each are exercisable at \$0.20 per option and expire on 31 October 2021.
- 11 August 2021
  - The research and development tax incentive of \$1,087,833, in relation to expenses incurred in the 31 December 2020 financial year, was received.
- 12 August 2021
  - 20,000 unlisted and vested Class T options were issued to employees. Each are exercisable at \$0.20 per option and expire on 31 October 2021.
  - 1,000,000 unlisted options were cancelled.
- 16 August 2021
  - 19,000,000 ZEPOs with an expiry date of 31 August 2024 vested due to the Company reaching the milestone of \$10 million in customer cash receipts within a 12-month rolling period.
  - 19,000,000 ZEPOs were exercised.
  - 220,000 unlisted options were exercised by employees using the limited recourse loan provided by the Company.

No other matter or circumstance has arisen since 30 June 2021 which has significantly affected or may significantly affect:

- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years.

## Directors' Declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 7 to 21 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Peter James  
Independent Non-Executive Chairman

Sydney, NSW  
31 August 2021

## Independent Auditor's Review Report to the Members of DroneShield Limited

### Conclusion

We have reviewed the half-year financial report of DroneShield Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of DroneShield Limited does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Responsibility of the Directors for the Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

**hlb.com.au**

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*HLB Mann Judd*

**HLB Mann Judd Assurance (NSW) Pty Ltd**  
**Chartered Accountants**

**Sydney, NSW**  
**31 August 2021**

A handwritten signature in black ink, appearing to read 'N J Guest'.

**N J Guest**  
**Director**