

Appendix 4D For the half-year ended 30 June 2022

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 2022. The previous corresponding period was the half-year ended 30 June 2021.

| Results for announcement to the market | | | | |
|--|-------------|---------------|----|-------------|
| | Up/ Down | % Movement | | 2022 \$ |
| Revenue from continuing activities | Down | 45% | to | 3,672,791 |
| Loss from continuing activities after tax attributable to members | Up | 990% | to | (4,931,824) |
| Net loss attributable to members | Up | 990% | to | (4,931,824) |
| Dividends: 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 2022: \$0.03; 31 December 2021: \$0.04.

4. There was no change in control during the half-year ended 30 June 2022

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 2021 Annual Report and any announcements to the market during the half-year period ending 30 June 2022. Further information regarding the Group and its business activities can be obtained by visiting the Group's website at www.droneshield.com



DRONESHIELD

Half Annual Report

For the Half Year Ended
30 June 2022



Image: DroneShield DroneSentry™ counterdrone detect-and-defeat system installation

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

Table of Contents

| | |
|---|----|
| Corporate Information | 2 |
| Directors' Report | 3 |
| Auditor's Independence Declaration | 7 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 8 |
| Consolidated Statement of Financial Position | 9 |
| Consolidated Statement of Changes in Equity | 10 |
| Consolidated Statement of Cash Flows | 11 |
| Notes to the Financial Statements | 12 |
| 1. Summary of Significant Accounting Policies | 12 |
| 2. Revenue..... | 13 |
| 3. Other income | 13 |
| 4. Corporate and support expense..... | 13 |
| 5. Corporate governance expense..... | 14 |
| 6. Options issued | 14 |
| 7. Cash and cash equivalents..... | 16 |
| 8. Trade and other receivables | 16 |
| 9. Inventories | 16 |
| 10. Other investments..... | 16 |
| 11. Plant, equipment and intangible assets | 17 |
| 12. Right-of-use asset..... | 18 |
| 13. Provisions | 18 |
| 14. Other liabilities | 18 |
| 15. Borrowings..... | 18 |
| 16. Lease liabilities..... | 19 |
| 17. Contributed equity..... | 19 |
| 18. Shares and options..... | 19 |
| 19. Earnings (loss) per share..... | 20 |
| 20. Contingent liabilities | 20 |
| 21. Commitments..... | 20 |
| 22. Segment information..... | 21 |
| 23. Events after the reporting date..... | 22 |
| Directors' Declaration..... | 23 |
| Independent Auditor's Report..... | 24 |

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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Australia

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Website: www.dronesield.com

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Sydney, NSW 2000
Australia

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PNC Bank
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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 2022.

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 is an Australian company with its head office in Sydney, subsidiary operation in the US, and presence in over 100 countries globally, specialising in counterdrone, Electronic Warfare, RF sensing, Artificial Intelligence and Machine Learning, Sensor Fusion, rapid prototyping and MIL-SPEC manufacturing. The customer base includes 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.

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

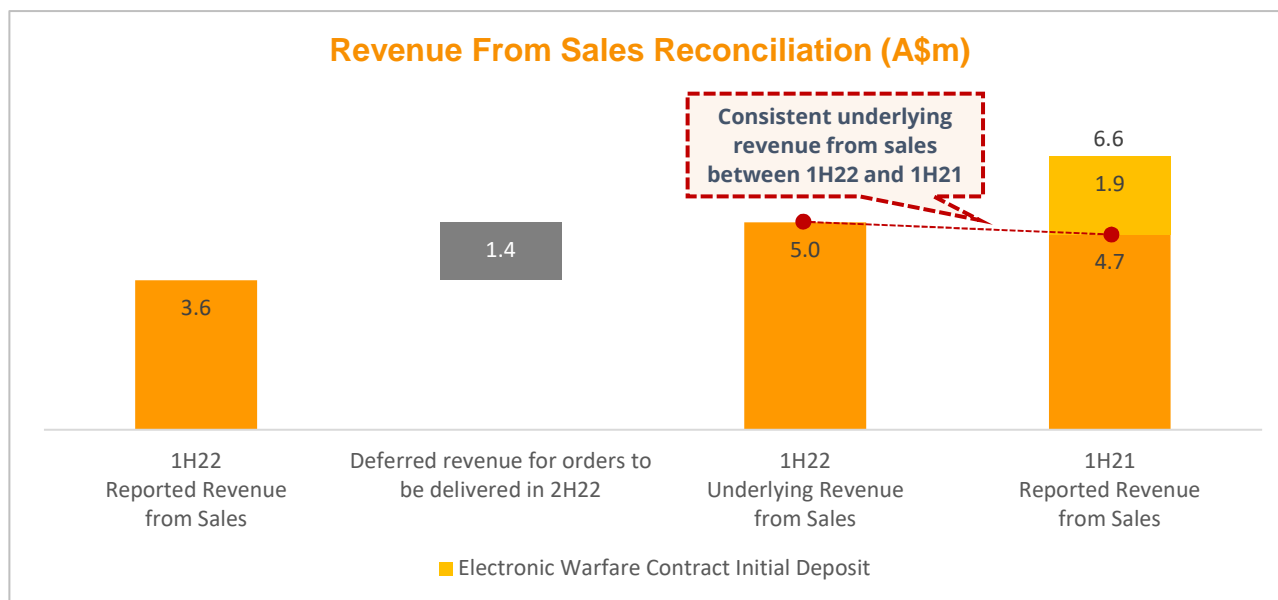
The product lines currently include the following:

- 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; and
- DroneSentry™ – a multi-sensor (RF, radar, optical and thermal camera) drone detection system; combined with automated drone/drone swarm defeat capability and utilising proprietary DroneSentry-C2™ command-and-control sensorfusion software.

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

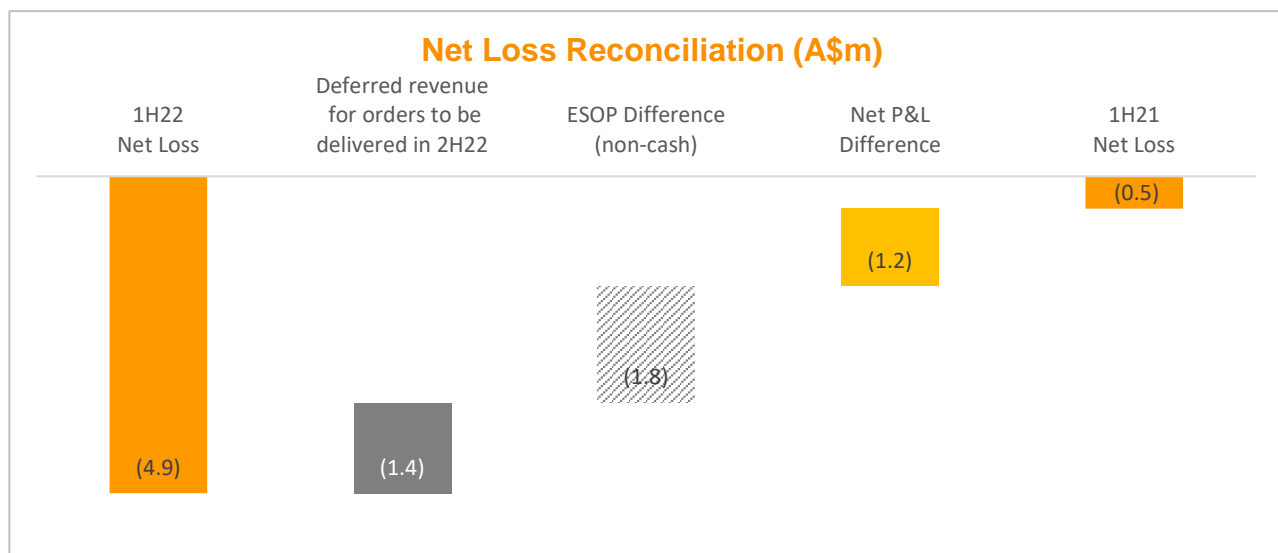
The Group achieved revenue from customers of \$3.6 million for the 1H22, a decrease of 6% relative to 2H21 of \$3.9 million. During the same period, the Group recorded \$5.2 million in cash receipts, a growth of 21% over the 2H21 customer cash receipts of \$4.3 million. The difference between \$3.6 million recognised revenue and \$5.2 million cash receipts, substantially relates to payments received in advance, of which \$1.4 million relates to orders which are expected to be delivered in 2H22, creating a release of revenues for which cash has been received in advance, within the FY2022 (December year-end) period. The remaining difference of \$200k relates to the cash receipts for the revenue recognised in FY2021.



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.

The share-based payment expense for 1H22 was \$919,598, related to options issued to the Company's key employees and Directors. In the 1H21 period, the impact of share-based payments was a credit of \$925,491 to the profit and loss. The credit consisted of \$2,854,239 for the reversal of options for which vesting conditions were not met, offset by share-based expenditure for the period. Equity-based compensation is a key incentive of team performance in DroneShield's rapidly growing business, which enables the Group to attract and retain best talent, whilst minimising the cash spend at this stage of the Company's growth.

The above two factors (delayed recognition of revenue on already received cash receipts, and the impact of equity-based payments), account for approximately \$3.2 million of the approximately \$4.4 million variance in profit and loss between the periods (\$4.9 million loss for 1H22 and \$450k loss for 1H21).



Key highlights include:

- As of the date of this report, there is an identified \$350 million global sales pipeline (including \$100 million in projects tracked to the end of 2022), across a number of key markets and products, in a US\$10bn total addressable counterdrone market;
- \$3.8 million 2-year contract with the Australian Department of Defence in Electronic Warfare/Signals Intelligence arena, with an anticipated expansion after its completion in mid-2023;
- \$800,000 initial Defence Innovation Hub project in computervision and sensorfusion AI successfully progressing;
- Active engagement in the Middle Eastern business continues;
- Diversity in the customer cash receipts, including substantial Australian and US payments, across multiple product lines, as well as R&D work;
- Continued rapid increase in the US business, including signing a framework agreement with the State of Texas, receiving a counterdrone contract for protection of IRONMAN Texas, and DroneShield's initial GSA order;
- Partnership and initial marquee defence customer with Teledyne FLIR, deepening of global partnership with Thales, and announcement of partnerships with Nearmap and Allen Vanguard;
- Substantial inventory acquisition to mitigate supply chain delay risks. Approximately \$15 million of inventory, by sale value, on hand as at 30 June 2022, to meet near term pipeline requirements;
- Reaching UK MOD SAPIENT compliance, which enables compatibility of DroneShield Systems with UK military standards;
- 60 staff globally as at 30 June 2022, including 40 engineer hires in Australia, and sales and field support hires in Australia and the US;
- Highly favourable macro environment for DroneShield due to increased macroeconomic uncertainties, war in Ukraine demonstrating extensive use of small drones by both sides, and rapidly increasing defence budgets globally including by the Australian Government.

DroneShield continues to move into the Software-as-a-Service (SaaS) space through the use of subscription pricing models on a range of products, as well as further advancement of software related work, especially in the defence signal processing space. 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 2022, the following occurred;

- 8 July 2022
 - 150,000 unlisted and vested Class AA options were issued to an advisory board member and an employee. Each are exercisable at \$0.30 per option and expire on 17 June 2025.
 - 9,000,000 Performance Options with an expiry date of 29 April 2027 were issued to employees.
- 25 July 2022
 - 500,000 unlisted and vested Class AB options were issued to consultants. Each are exercisable at \$0.20 per option and expire on 25 July 2025.
- 27 July 2022
 - DroneShield received a repeat order for its counterdrone solutions of approximately \$500k from a high-profile US Government Agency.
- 2 August 2022
 - The R&D Incentive Grant of \$1,979,531, in relation to R&D expenses incurred during the 31 December 2021 financial year, was received.
- 4 August 2022
 - 250,000 unlisted and vested Class AA options were issued to an employee. Each are exercisable at \$0.30 per option and expire on 17 June 2025.
- 5 August 2022
 - 10,500,000 unlisted options expired.


No other matter or circumstance has arisen since 30 June 2022 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 7.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
30 August 2022

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 2022, 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.



N J Guest
Director

Sydney, NSW
30 August 2022

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Liability limited by a scheme approved under Professional Standards Legislation.

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 2022 \$ | 30 June 2021 \$ |
|---|----------|-----------------------|-----------------------|
| Revenue | 2 | 3,672,791 | 6,709,911 |
| Other income | 3 | 233,559 | 279,699 |
| Cost of sales | | (1,069,956) | (1,717,005) |
| Product development expense | | (3,098,109) | (2,256,862) |
| Sales and customer service expense | | (1,517,943) | (1,474,449) |
| Corporate and support expense | 4 | (1,889,704) | (2,605,877) |
| Corporate governance expense | 5 | (342,864) | (313,324) |
| Share based payment expense | 6 | (919,598) | 925,491 |
| Loss before income tax | | (4,931,824) | (452,416) |
| Income tax benefit | | - | - |
| Loss after income tax | | (4,931,824) | (452,416) |
| Other comprehensive income: | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Adjustments on translation of foreign controlled entity | | (75,812) | 62,043 |
| Total comprehensive loss for the period | | (5,007,636) | (390,373) |
| Basic loss per share (cents per share) | 19 | (1.17) | (0.12) |
| Diluted loss per share (cents per share) | 19 | (1.17) | (0.12) |

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 2022 \$ | 31 December 2021 \$ |
|--|------|-----------------------|---------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 6,588,923 | 9,419,235 |
| Trade and other receivables | 8 | 1,173,032 | 859,131 |
| Inventories | 9 | 7,397,942 | 6,915,939 |
| Other investments | 10 | 42,900 | 75,000 |
| Total current assets | | 15,202,797 | 17,269,305 |
| Non-current assets | | | |
| Plant, equipment and intangible assets | 11 | 847,456 | 1,028,471 |
| Right-of-use assets | 12 | 729,275 | - |
| Other investments | 10 | 75,000 | 42,900 |
| Total non-current assets | | 1,651,731 | 1,071,371 |
| Total assets | | 16,854,528 | 18,340,676 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables | | 1,007,216 | 478,382 |
| Provisions | 13 | 431,660 | 408,631 |
| Other liabilities | 14 | 2,861,404 | 1,566,894 |
| Lease liabilities | 16 | 626,189 | 152,985 |
| Borrowings | 15 | 148,868 | 56,584 |
| Total current liabilities | | 5,075,337 | 2,663,476 |
| Non-current liabilities | | | |
| Provisions | 13 | 59,713 | 54,995 |
| Lease liabilities | 16 | 224,113 | 38,802 |
| Total non-current liabilities | | 283,826 | 93,797 |
| Total liabilities | | 5,359,163 | 2,757,273 |
| Net assets | | 11,495,365 | 15,583,403 |
| EQUITY | | | |
| Share capital | 17 | 36,983,156 | 36,983,156 |
| Reserves | | 5,161,328 | 5,299,211 |
| Accumulated losses | | (30,649,119) | (26,698,964) |
| Total equity | | 11,495,365 | 15,583,403 |

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 \$ |
|--|-----------------------------|--------------------------|---|-----------------------------|--------------------|
| Balance at 1 January 2022 | 36,983,156 | 5,175,003 | 124,208 | (26,698,964) | 15,583,403 |
| Transfer from option reserve to accumulated losses | - | (981,669) | - | 981,669 | - |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Net share-based payments movement | - | 919,598 | - | - | 919,598 |
| Equity transaction costs | - | - | - | - | - |
| | - | 919,598 | - | - | 919,598 |
| Exchange difference on translation of foreign operations | - | - | (75,812) | - | (75,812) |
| Loss for the period | - | - | - | (4,931,824) | (4,931,824) |
| Total comprehensive loss for the period | - | - | (75,812) | (4,931,824) | (5,007,636) |
| Balance at 30 June 2022 | 36,983,156 | 5,112,932 | 48,396 | (30,649,119) | 11,495,365 |
| Balance at 1 January 2021 | 37,283,293 | 7,777,980 | (12,168) | (25,459,672) | 19,589,433 |
| 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) |
| Balance at 30 June 2021 | 36,983,156 | 6,728,723 | 49,875 | (25,488,185) | 18,273,569 |

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 2022 \$ | 30 June 2021 \$ |
|---|----------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 5,223,785 | 9,120,724 |
| Payments to suppliers and employees | | (7,873,257) | (11,104,028) |
| Other incentives received | | 142,769 | 112,970 |
| Other receipts | | 39,459 | - |
| Net cash flows used in operating activities | | (2,467,244) | (1,870,334) |
| Cash flows from investing activities | | | |
| Purchase of plant and equipment | | (221,674) | (172,569) |
| Proceeds from investments | | - | 7,655,034 |
| Net cash flows (used in) from investing activities | | (221,674) | 7,482,465 |
| Cash flows from financing activities | | | |
| Interest income on cash deposits | | 2,002 | 32,639 |
| Payments for lease liabilities | | (254,958) | (65,060) |
| Net cash flows used in financing activities | | (252,956) | (32,421) |
| Cash and cash equivalents at beginning of the period | | 9,419,235 | 7,858,738 |
| Net (decrease) increase in cash and cash equivalents | | (2,941,874) | 5,579,710 |
| Exchange rate adjustments to balances held in foreign currencies | | 111,562 | 37,142 |
| Cash and cash equivalents at the end of the period | 7 | 6,588,923 | 13,475,590 |

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 2021), and any public announcements made by the Company during the reporting period.

1. Summary of Significant Accounting Policies

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 2022, the Group incurred a loss after income tax of \$4,931,824 and net cash outflows from operating activities of \$2,467,244, with cash on hand at 30 June 2022 of \$6,588,923. At 30 June 2022, the Group had net assets of \$11,495,365 and an excess of current assets over current liabilities of \$10,127,460.

A cash flow forecast for the next 12 months prepared by management has indicated that the Group will have sufficient cash assets 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.

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 2022 \$ | 30 June 2021 \$ |
|--|-----------------------|-----------------------|
| 2. Revenue | | |
| Hardware sales | 2,807,253 | 4,232,441 |
| Research and development revenue | 583,649 | 2,210,200 |
| Shipping revenue | 109,596 | 129,054 |
| Subscription revenue | 140,030 | 57,577 |
| Total revenue from sales | 3,640,528 | 6,629,272 |
| 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 22). | | |
| Timing of revenue recognition | | |
| At a point in time | | |
| Hardware sales including shipping income | | |
| - <i>direct sales</i> | 1,936,800 | 1,781,570 |
| - <i>distributors</i> | 980,049 | 2,579,925 |
| Research and development revenue | | |
| - <i>direct sales</i> | 583,649 | 2,210,200 |
| Over time | | |
| Subscription services | | |
| - <i>direct sales</i> | 107,692 | 25,752 |
| - <i>distributors</i> | 32,338 | 31,825 |
| Total revenue from sales | 3,640,528 | 6,629,272 |
| Other revenue | | |
| Interest revenue | 2,003 | 32,639 |
| Sublease revenue | 30,260 | 48,000 |
| Total other revenue | 32,263 | 80,639 |
| Total revenue | 3,672,791 | 6,709,911 |
| 3. Other income | | |
| Awards and incentives income | 74,782 | 242,853 |
| Net foreign exchange gains | 158,777 | 36,846 |
| Total other income | 233,559 | 279,699 |
| 4. Corporate and support expense | | |
| Legal | 62,204 | 362,162 |
| Office costs and communication | 360,152 | 509,352 |
| Other | 423,472 | 270,526 |
| Payroll | 707,439 | 830,880 |
| Professional expenses | 294,775 | 618,409 |
| Travel and entertainment | 41,662 | 14,548 |
| Total corporate and support expense | 1,889,704 | 2,605,877 |

Notes to the Financial Statements *continued*

| | 30 June 2022 \$ | 30 June 2021 \$ |
|---|-----------------------|-----------------------|
| 5. Corporate governance expense | | |
| ASX fees | 43,968 | 40,098 |
| Board and Advisory Board expenses | 74,996 | 120,453 |
| Insurance | 107,240 | 71,787 |
| Other | 84,262 | 40,168 |
| Professional expenses | 32,398 | 40,818 |
| Total corporate governance expense | 342,864 | 313,324 |

6. Options issued

During the half-year 30 June 2022, a number of options were issued to Directors, management and other employees of the Group participating in the Share Placement that occurred in January, April and June 2022. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions:

| | Class X Options | Class Y Options | Class Z Options | Class AA Options | Performance Options | Other Options | Total option expense for the period Note (c) |
|--|--------------------|--------------------|--------------------|---------------------|------------------------|------------------|--|
| | | | | | Note (a) | Note (b) | |
| No of new options | 14,650,000 | 850,000 | 100,000 | 200,000 | 16,000,000 | | |
| Expiry (years) | 2.01 | 5.00 | 0.25 | 3.01 | 5.01 | | |
| Exercise price (\$) | 0.25 | 0.25 | 0.20 | 0.30 | 0.00 | | |
| Vesting period (years) | 0.00 | 0.00 | 0.00 | 0.00 | 5.01 | | |
| Underlying volatility | 54.38% | 54.38% | 54.38% | 54.38% | n/a | | |
| Risk free interest rate | 0.72% | 1.54% | 3.29% | 3.29% | n/a | | |
| Calculated fair value of each option (\$) | 0.0352 | 0.0711 | 0.0107 | 0.0457 | n/a | | |
| Total expense recorded for the period ended 30 June 2022 (\$) | 511,224 | 61,157 | 1,067 | 9,130 | 133,005 | 204,015 | 919,598 |

Notes to the Financial Statements *continued*

6. Options issued *continued*

- Note (a): 16,000,000 of the Performance Options were issued to Directors and shall vest and become exercisable into Shares at any time on and from the earlier of the date that the vesting conditions are satisfied. The options are subject to the following vesting conditions being satisfied: DroneShield achieving \$50,000,000 of revenue or customer cash receipts in any rolling twelve-month period from the date of the issue of the Options, or a Change of Control event, and terminates on the expiry date. 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. The full terms of the Performance Options are set out in Annexure A to the 2022 Notice of General Meeting. URL: <https://www.asx.com.au/asxpdf/20220325/pdf/457c98hsggb2xn.pdf>
- Note (b): \$204,015 comprises of a vesting expense for Performance Options and Class Q options (issued in 2019 and 2020).
- Note (c): 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, 14,315,833 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.

Notes to the Financial Statements *continued*

| | 30 June 2022 \$ | 31 December 2021 \$ |
|--|-----------------------|---------------------------|
| 7. Cash and cash equivalents | | |
| Cash at bank and on hand | 5,827,058 | 5,660,677 |
| Short-term deposits | 761,865 | 3,758,558 |
| Total cash and cash equivalents | 6,588,923 | 9,419,235 |
| 8. Trade and other receivables | | |
| Trade receivables | 157,973 | 259,031 |
| GST receivable | 109,535 | 130,054 |
| Deferred sales proceeds (see Note 14) | 39,682 | 131,278 |
| Prepayments | 566,049 | 338,768 |
| Other assets | 299,793 | - |
| Total trade and other receivables | 1,173,032 | 859,131 |
| 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 | 37,059 | - |
| Payment for sublease revenue is due as per the terms specified in the contract. | | |
| 9. Inventories | | |
| Raw materials | 1,867,034 | 1,063,504 |
| Work in progress | 698,486 | 935,381 |
| Consignment | 124,543 | 124,543 |
| Finished goods inventory at cost | 4,707,879 | 4,792,511 |
| Total inventories | 7,397,942 | 6,915,939 |
| 10. Other investments | | |
| Current | | |
| - Term Deposits | 42,900 | 75,000 |
| Non-current | | |
| - Term Deposits | 75,000 | 42,900 |
| Total other investments | 117,900 | 117,900 |

Notes to the Financial Statements *continued*

11. Plant, equipment and intangible assets

| | Development equipment \$ | Demonstration equipment \$ | Office equipment \$ | Plant & equipment \$ | Intangible Assets (software) \$ | Vehicles and trailers \$ | Total \$ |
|--|--------------------------------|----------------------------------|---------------------------|----------------------------|--|--------------------------------|------------------|
| Balance at 1 January 2022 | 97,363 | 291,877 | 136,174 | 291,799 | 38,222 | 173,036 | 1,028,471 |
| Additions | 120,566 | - | 71,740 | 7,383 | - | - | 199,689 |
| Disposals | - | (96,496) | (11,542) | - | - | (44,463) | (152,501) |
| Transfers from (to) other fixed asset categories | - | (8,160) | - | - | - | - | (8,160) |
| Transfer from (to) inventory | (2,646) | (24,510) | - | - | - | - | (27,156) |
| Depreciation | - | (81,320) | (51,592) | (50,222) | (6,569) | (12,123) | (201,826) |
| Exchange differences | - | 3,477 | 700 | - | - | 4,762 | 8,939 |
| Balance at 30 June 2022 | 215,283 | 84,868 | 145,480 | 248,960 | 31,653 | 121,212 | 847,456 |
| | Cost \$ | Accumulated depreciation \$ | | Carrying value \$ | | | |
| Development equipment | 215,283 | - | | 215,283 | | | |
| Demonstration equipment | 667,581 | (582,713) | | 84,868 | | | |
| Office equipment | 370,884 | (225,404) | | 145,480 | | | |
| Plant & Equipment | 514,525 | (265,565) | | 248,960 | | | |
| Vehicles and Trailers | 154,362 | (33,150) | | 121,212 | | | |
| Intangible Assets (software) | 75,655 | (44,002) | | 31,653 | | | |
| Balance at 30 June 2022 | 1,998,290 | (1,150,834) | | 847,456 | | | |
| Development equipment | 97,363 | - | | 97,363 | | | |
| Demonstration equipment | 917,027 | (625,150) | | 291,877 | | | |
| Office equipment | 319,859 | (183,685) | | 136,174 | | | |
| Plant & Equipment | 507,142 | (215,343) | | 291,799 | | | |
| Vehicles and Trailers | 198,434 | (25,398) | | 173,036 | | | |
| Intangible Assets (software) | 75,655 | (37,433) | | 38,222 | | | |
| Balance at 31 December 2021 | 2,115,480 | (1,087,009) | | 1,028,471 | | | |

Notes to the Financial Statements *continued*

| | 30 June 2022 \$ | 31 December 2021 \$ |
|--|-----------------------|---------------------------|
| 12. Right-of-use asset | | |
| Opening balance | - | 236,973 |
| Additions | 945,293 | - |
| Impairment | 66,631 | (105,322) |
| Depreciation | (282,649) | (131,651) |
| Closing balance | 729,275 | - |
| 13. Provisions | | |
| Current | | |
| - Annual leave | 431,660 | 408,631 |
| Non-current | | |
| - Long-service leave | 59,713 | 54,995 |
| Total provisions | 491,373 | 463,626 |
| 14. Other liabilities | | |
| Accrued expenses | 213,855 | 310,511 |
| Deferred revenue | | |
| - Hardware sales | 1,719,866 | 571,293 |
| - Subscription services | 609,715 | 398,333 |
| - Research and development revenue | 96,080 | 282,579 |
| - Other revenue | 114,428 | 4,178 |
| Other liabilities | 107,460 | - |
| Total other liabilities | 2,861,404 | 1,566,894 |
| 15. Borrowings | | |
| Unsecured borrowing at amortised cost | | |
| Insurance Premium Finance | 148,868 | 56,584 |
| Total borrowings | 148,868 | 56,584 |
| Amount due for settlement within 12 months | 148,868 | 56,584 |
| Amount due for settlement after 12 months | - | - |

Notes to the Financial Statements *continued*

| | 30 June 2022 \$ | 31 December 2021 \$ |
|---|-----------------------|---------------------------|
| 16. Lease liabilities | | |
| Amounts due for settlement within 12 months | 626,189 | 152,985 |
| Amounts due for settlement after 12 months | 224,113 | 38,802 |
| Total lease liabilities | 850,302 | 191,787 |

These liabilities were measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rates ranging from 6.07% - 9.00%.

17. Contributed equity

| | No. of shares (Note a) | \$ |
|--|---------------------------|-------------------|
| Balance at beginning of period (1 January 2022) | 418,226,152 | 36,983,156 |
| Shares issued following option exercise during period (Note b) | 14,315,833 | - |
| Balance at end of period (30 June 2022) | 432,541,985 | 36,983,156 |

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

Note (b): During the half-year, 14,315,833 options were exercised using limited-recourse loans, where the company provided interest free loans to its employees and Directors 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.

18. Shares and options

| | Number of Shares | Number of Unlisted Options |
|---|--------------------|-------------------------------|
| Opening balances at 1 January 2022 | 418,226,152 | 24,115,834 |
| Options exercised during the period | 14,315,833 | (14,315,833) |
| Options cancelled after vesting | - | (100,001) |
| Options lapsed during the period | - | (825,000) |
| Options issued to Directors, Management and Employees | - | 31,800,000 |
| Closing balance at 30 June 2022 | 432,541,985 | 40,675,000 |

Unlisted Options

31,800,000 Unlisted Options were issued to Directors, Management and employees during the half-year to 30 June 2022. 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.

Notes to the Financial Statements *continued*

19. Earnings (loss) per share

| | 30 June 2022 \$ | 30 June 2021 \$ |
|--|-----------------------|-----------------------|
| (a) Basic earnings (loss) per share | | |
| Total basic earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share) | (1.17) | (0.12) |
| (b) Dilutive earnings per share | | |
| Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share) | (1.17) | (0.12) |
| (c) Weighted average number of shares used as the denominator | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 422,305,184 | 390,384,706 |

Options

Unlisted Options on issue (refer to Note 18) are not included in the calculation of diluted earnings per share because they are considered to be antidilutive for the period ended 30 June 2022. These options and shares could potentially dilute basic earnings per share in future periods.

20. Contingent liabilities

As at 30 June 2022 there were no contingent liabilities.

21. Commitments

At 30 June 2022, contractual agreements existed to pay suppliers \$2,217,588 for the manufacturing of inventory.
At 31 December 2021 the balance was \$1,210,769.

Notes to the Financial Statements *continued*

22. Segment information

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

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.

The following tables present certain information regarding geographical segments for the half-years ended 30 June 2022 and 30 June 2021.

| Segment performance 30 June 2022 | USA \$ | UK \$ | Australia \$ | Elimination \$ | Total \$ |
|--|------------------|----------|------------------|-------------------|--------------------|
| Hardware sales including shipping income | | | | | |
| <i>direct sales</i> | 1,452,966 | - | 483,834 | - | 1,936,800 |
| <i>distributors</i> | - | - | 980,049 | - | 980,049 |
| Subscription services | | | | | |
| <i>direct sales</i> | 49,952 | - | 57,740 | - | 107,692 |
| <i>distributors</i> | 7,373 | - | 24,965 | - | 32,338 |
| Research and development revenue | | | | | |
| <i>direct sales</i> | - | - | 583,649 | - | 583,649 |
| Total revenue from sales | 1,510,291 | - | 2,130,237 | - | 3,640,528 |
| Other revenue | - | - | 32,263 | - | 32,263 |
| Total revenue | 1,510,291 | - | 2,162,500 | - | 3,672,791 |
| Other income | 11,329 | - | 222,230 | - | 233,559 |
| Depreciation | (145,314) | - | (339,161) | - | (484,475) |
| Loss after income tax expense | (27,522) | - | (4,904,302) | - | (4,931,824) |
| Assets and liabilities | | | | | |
| Segment assets | 626,375 | - | 19,032,154 | (2,804,001) | 16,854,528 |
| Segment liabilities | (4,484,017) | - | (3,679,147) | 2,804,001 | (5,359,163) |

Notes to the Financial Statements *continued*

22. Segment information *continued*

| Segment performance 30 June 2021 | USA \$ | UK \$ | Australia \$ | Elimination \$ | Total \$ |
|--|------------------|-----------|------------------|-------------------|--------------------|
| Hardware sales including shipping income | | | | | |
| <i>direct sales</i> | 2,245,859 | - | 334,066 | - | 2,579,925 |
| <i>distributors</i> | 356,306 | - | 1,425,264 | - | 1,781,570 |
| Subscription services | | | | | |
| <i>direct sales</i> | - | - | 25,752 | - | 25,752 |
| <i>distributors</i> | 11,910 | - | 19,915 | - | 31,825 |
| Research and development revenue | | | | | |
| <i>direct sales</i> | - | - | 2,210,200 | - | 2,210,200 |
| Total revenue from sales | 2,614,075 | - | 4,015,197 | - | 6,629,272 |
| Other revenue | 340 | - | 80,299 | - | 80,639 |
| Total revenue | 2,614,415 | - | 4,095,496 | - | 6,709,911 |
| Other income | 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) |
| Assets and liabilities | | | | | |
| 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) |

23. Events after the reporting date

Subsequent to 30 June 2022, the following occurred;

- 8 July 2022
 - 150,000 unlisted and vested Class AA options were issued to an advisory board member and an employee. Each are exercisable at \$0.30 per option and expire on 17 June 2025.
 - 9,000,000 Performance Options with an expiry date of 29 April 2027 were issued to employees.
- 25 July 2022
 - 500,000 unlisted and vested Class AB options were issued to consultants. Each are exercisable at \$0.20 per option and expire on 25 July 2025.
- 27 July 2022
 - DroneShield received a repeat order for its counterdrone solutions of approximately \$500k from a high-profile US Government Agency.
- 2 August 2022
 - The R&D Incentive Grant of \$1,979,531, in relation to R&D expenses incurred during the 31 December 2021 financial year, was received.
- 4 August 2022
 - 250,000 unlisted and vested Class AA options were issued to an employee. Each are exercisable at \$0.30 per option and expire on 17 June 2025.
- 5 August 2022
 - 10,500,000 unlisted options expired.

No other matter or circumstance has arisen since 30 June 2022 which has significantly affected or may significantly affect:

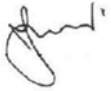
- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years

Directors' Declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 8 to 22 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 2022 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
30 August 2022



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

Report on the Half-Year Financial Report

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 2022, 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 2022 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 2022 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*.

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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
30 August 2022

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

N J Guest
Director

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