

Appendix 4D For the half-year ended 30 June 2023

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 2023. The previous corresponding period was the half-year ended 30 June 2022.

Results for announcement to the market				
	Up/ Down	% Movement		1H 2023 \$
Revenue from continuing activities	Up	214%	to	11,546,610
Loss from continuing activities after tax attributable to members	Down	40%	to	(2,935,011)
Net loss attributable to members	Down	40%	to	(2,935,011)
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 2023: \$0.11; 31 December 2022: \$0.04.

4. There was no change in control during the half-year ended 30 June 2023

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 2022 Annual Report and any announcements to the market during the half-year period ending 30 June 2023. Further information regarding the Group and its business activities can be obtained by visiting the Group's website at www.droneshield.com



DRONESHIELD

Half-year Report

For the Half-year Ended
30 June 2023

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Image: DroneGun Mk4

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

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Corporate Information

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Jethro Marks Independent Non-Executive Director
Oleg Vornik CEO and Managing Director

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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 2023.

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, intelligence agencies, Government, law enforcement, critical infrastructure, commercial and VIPs throughout the world.

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

DroneShield's unique products use proprietary Artificial Intelligence-based 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 RF defeat technologies.

The Company has 3 revenue streams:

- Hardware sales;
- Subscriptions-as-a-Service (SaaS) associated with its hardware, which is expected to rise over time as a share of overall revenue; and
- Long term R&D contracts.

The product lines currently include the following:

- DroneGun Tactical™ – a portable tactical rifle-shaped drone disruptor;
- DroneGun Mk3™ and DroneGun Mk4™ – pistol-shaped drone disruptors;
- RfPatrol Mk2™ – a body-worn passive RF drone detector;
- DroneSentry-X™ – a vehicle/ship/rooftop 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 execution of its third contract with a FVEY (Five Eyes, referring to US, UK, Canada, Australia and NZ) Department of Defence on a 2-year, \$9.9 million project.

Additionally, on 2 August 2023, DroneShield announced its entry to area-specific Satellite Denial Systems for a FVEY Government, accompanied by an initial customer order.

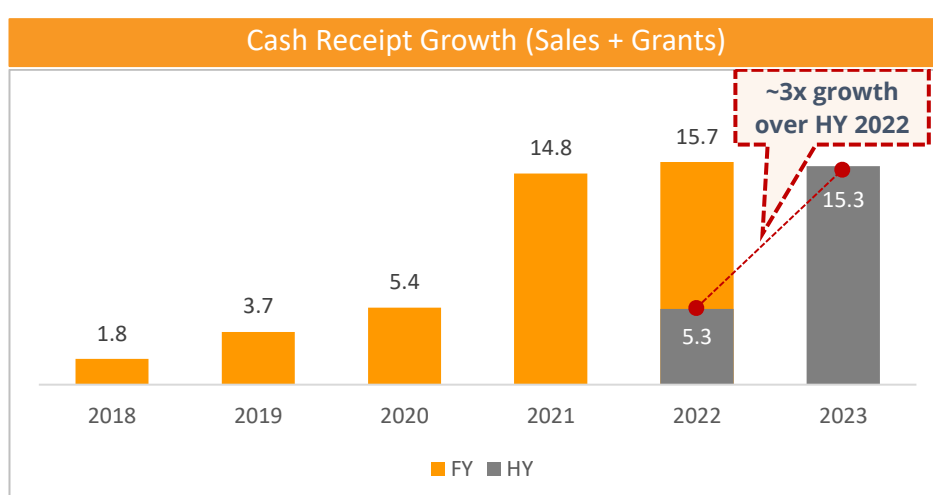
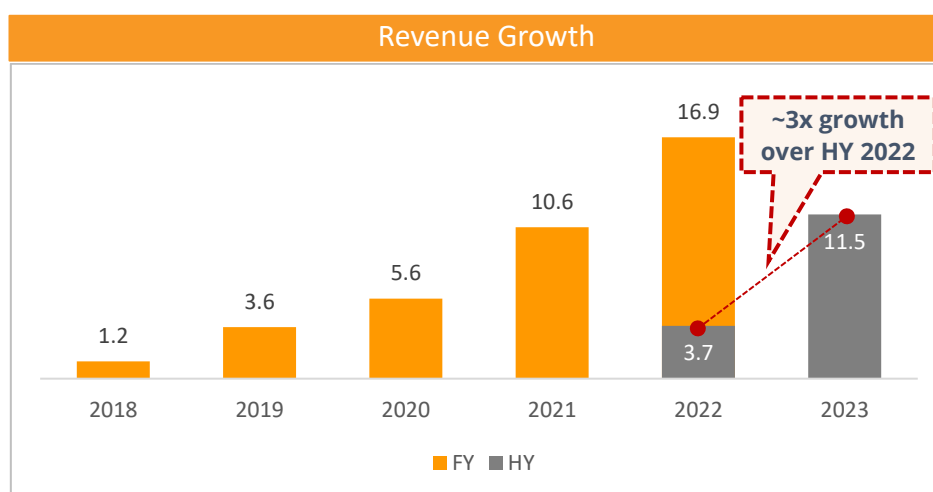
Review of Operations and Financial Results

The Group achieved revenue from customers of \$11.3 million for the 1H23, an increase of 212% relative to 1H22 of \$3.6 million. During the same period, the Group recorded \$15.2 million in customer cash receipts, a growth of 192% over the 1H22 customer cash receipts of \$5.2 million. The difference between cash receipts and revenue was due to an \$11 million order announced in December 2022, which was partially fulfilled in 2022 (and thus that portion recognised in the 2022 Revenue) with the payment on the December delivery in January 2023.

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 1H23 was \$874,414, related to options issued to the Company's key employees and Directors, a decrease of 5% relative to 1H22. 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 Company has recognised a net loss before tax for the 1H23 period of \$2,935,011, a reduction of 40% compared to 1H22 loss of \$4,931,824. The second half of the year has traditionally been a stronger period for the Company, and similarly expected to remain in 2023, as DroneShield executes on completion and delivery of a \$33 million order, amongst other projects within the \$62 million contracted backlog.



Key recent highlights during and subsequent to the period include:

- [\\$33 million U.S. Government sale](#) announced 17 July, expected to be fully delivered and paid this calendar year;
- [\\$9.9 million 2-year R&D contract](#) announced 4 July, following on the earlier \$3.8 million contract from same FVEY Government defence customer. \$2 million has already been received;

- \$15.3 million cash receipts for 1H23, ▲200% over 1H22;
- All-time record \$62 million contracted order backlog, with an over \$200 million in sales pipeline;
- \$2.4 million expected in R&D Tax Incentive grant in the September 2023 quarter (as cash);
- [NATO Stock Numbers granted](#) for a number of DroneShield systems;
- Strong bank and term deposits balance of \$42.4 million as at 30 June 2023. The reduction of \$3.5 million from 31 March 2023 was due to inventory investment for anticipated near term orders such as the \$33 million order received;
- Launch of [DroneGun Mk4](#), the latest in the iconic DroneGun range, with a strong backlog of purchase orders and interest ahead of the launch;
- [Completion](#) and remaining payment on the \$11 million order received in December 2022;
- Release of enhanced [DroneSentry-C2 Platform Update](#) and [DroneLocator](#) (as part of RF Device Firmware Update); and
- [Completion of system integration](#) with Epirus, a California-based multi-billion dollar defence unicorn, who [invested \\$3.7 million](#) in DroneShield in November 2022.

DroneShield continues to be in a highly favourable environment, with both the counterdrone industry rapidly growing and more generally defence and security budgets rising. The Company has a number of unique differentiators (technically and commercially). The Ukraine situation is demonstrating the role of drones in modern warfare, and driving procurement programs of Government customers around the world seeking to be prepared for the next conflict.

Material Business Risks

DroneShield is required to report on its material business risks, in line with ASX regulations. There are various internal and external risks that may have a material impact on the Company's future financial performance and economic sustainability. The Company makes every effort to identify material risks and to manage these effectively.

The Board devotes time on at least an annual basis to fulfil the roles and responsibilities associated with overseeing risk and maintaining the Company's risk management framework and associated internal compliance and control procedures.

The Company's Risk Management and Compliance Policy details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks. The Risk Management and Compliance Policy is contained in the Corporate Governance Plan which is available on the Company's website at: <https://www.droneshield.com/investors>.

The following is a summary of the material business risks that could adversely impact the Company's financial and operating performance and prospects. These risks do not represent an exhaustive list of risks the Company is exposed to, nor are they in order of significance.

Business Strategy Risk	The Company's growth and financial performance is dependent on its ability to successfully execute its growth strategy. If the Company fails to execute on its business strategy, its business, financial condition and results of operations could be materially and adversely affected.
Future Profitability	The Company's business requires significant expenditure on marketing, business development and personnel, and substantial capital investment in production facilities. Accordingly, the Company may not reach and maintain profitability and, to the extent such expenditure and investment continue, may suffer a shortage of working capital.
Counterparty Risk	The Company conducts a significant proportion of its business with customers outside of Australia. Risk arises from the Company's restricted ability and the cost of recovering payments in foreign jurisdictions. The Company mitigates this risk by generally requiring substantial or full payment prior to shipment of goods (with some exceptions of highly trusted customers, such as US Government agencies). However late payments, cancelled orders and bad debts may still occur.
Supply	The Company may experience delivery delays if its contract manufacturers fail to deliver products as agreed. The Company's products are manufactured by several key contract manufacturers, as well as (on a smaller scale, and for several product lines) the Company's facility. Any operational issues that impact manufacturers may affect the delivery of the Company's products. The Company depends on the contract manufacturers to adjust operations according to demand for each product to ensure no backlog in production. Risk arises from an undiversified set of key manufacturers, which may cause delays in delivery if a contracted manufacturer fails to deliver as agreed until the issue is resolved or a new contracted manufacturer is organised.

Government Contracts	<p>A portion of the Company's revenues may depend on the Company's ability to do business with the U.S. as well as foreign governments and their various agencies, whether directly or indirectly. Such customers may:</p> <ul style="list-style-type: none"> • award or terminate contracts at their convenience; • terminate, reduce or modify contracts or subcontracts if its requirements or budgetary constraints change; • cancel multi-year contracts and related orders if funds become unavailable; • shift their spending priorities; • adjust contract costs and fees on the basis of audits done by its agencies; • use and practice intellectual property developed in the performance of a government contract or subcontract; • claim rights to intellectual property not properly protected pursuant applicable contract terms; • seek penalties and fines exceeding the value of a contract for contract activity that results in the submission of a false claim to the government; • debar the Company or its subsidiaries because of legal and other actions undertaken by or against the Company or its subsidiaries, the Company's officers, directors, shareholders, employees and affiliates, or convictions of the Company's officers, directors, shareholders, employees or affiliates; and • inquire about and investigate business practices and audit compliance with applicable rules and regulations.
Product Liability	<p>When developing and manufacturing new products, defects may arise in the Company's initial releases of the products. Defects could expose the Company to product liability claims or litigation, resulting in monetary damages being awarded against the Company. The Company uses contractual clauses to limit such risk; however, not all customers accept these standard clauses. Additionally, the Company has obtained insurance to limit this risk; however, liability from a defect could exceed the Company's insurance coverage.</p>
Litigation	<p>The Company is exposed to possible litigation risks including, but not limited to, intellectual property infringement claims, vendor and customer contractual and common law claims, environmental claims, occupational health and safety claims, and employee claims. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position.</p>
Government Legislation	<p>Any material adverse changes in government policies or legislation of Australia or any other country where the Company may acquire or operate economic interests may affect the viability and profitability of the Company. Also, some of the Company's products are highly regulated and may be affected by regulatory changes where its suppliers are located, or where it manufactures or it sells the products.</p>
Data Loss, Theft or Corruption	<p>The Company stores data in its own systems and networks and also with a variety of third-party service providers. Exploitation or hacking of any of these systems or networks could lead to corruption, theft or loss of the data which could have a material adverse effect on the Company's business, financial condition and results.</p> <p>Further, if the Company's systems, networks or technology are subject to any type of 'cyber' crime, its technology may be perceived as unsecure, which may lead to a decrease in the number of customers.</p>
Foreign Exchange	<p>The Company will be operating in a variety of jurisdictions (both its customer and its supply chain), including the United States of America and Australia. Consequently, fluctuations in currency exchange rates may adversely or beneficially affect the Company's results or operations and cash flows. For example, the appreciation or depreciation of the US dollar relative to the Australian dollar would result in a foreign currency gain or loss. Any depreciation of currencies in foreign jurisdictions in which the Company operates may result in lower than anticipated revenue, profit and earnings of the Company. Outside of Australia, the Company uses USD pricing for most of its products. Company's expenditure is mostly a mixture of AUD and USD.</p>
Accounting Standards and Tax Laws	<p>The Company operates in multiple jurisdictions with varied tax and reporting regimes. The Company is exposed to the risk of changes to accounting standards, applicable laws or their interpretation which may have a negative effect on the Company, its investments or returns to Shareholders including the risk of non-compliance with reporting or other legal obligations. Any change to the rate of company income tax in jurisdictions in which the Company operates will impact on shareholder returns.</p>

Insurance Coverage	The Company faces various risks in conducting its business and may lack or may not be reasonably able to obtain adequate insurance coverage. The Company has arranged and maintains insurance coverage for its employees (such as health insurance policies for some of its overseas employees, travel insurance, and workers compensation), public liability, professional indemnity, cyber liability, product liability, motor vehicle, marine cargo, Directors & Officers, and general liability covering office and contents; however it does not currently maintain intellectual property or business interruption insurance. The Company will continue to need to review its insurance requirements periodically. If the Company incurs substantial losses or liabilities and its insurance coverage is unavailable or inadequate to cover such losses or liabilities, the Company's financial position and financial performance may be adversely affected, including a material adverse effect on the business, financial condition and results of the Company. Additionally, any claim may cause the Company's premiums to rise or the Company to be uninsurable after the relevant policy period.
Disputes	The activities of the Company may result in disputes with third parties, including, without limitation, the Company's investors, competitors, regulators, partners, distributors, customers, directors, officers and employees, and service providers. The Company may incur substantial costs in connection with such disputes.
Strategies	There are no limits on strategies that the Company may pursue. The strategy may evolve over time for reasons including but not limited to, market developments and trends, technical challenges, the emergence of new or enhanced technology, changing regulation and/or industry practice. As a result, the strategy, approaches, markets and products at present may not reflect the strategies, approaches, markets and products relevant to, or pursued by, the Company in the future. Further, a change in strategy may involve material and as yet unanticipated risks.
Research and Development and Technical Risk	The Company's products are the subject of continuous research and development and need to be substantially developed further in order to enable the Company to sell and subsequently support the products, and to meaningfully improve the products' usability, scalability, efficiency, and accuracy. There are no guarantees that the Company will be able to undertake such research and development successfully. Failure to successfully undertake such research and development, anticipate technical problems, or estimate research and development costs or timeframes accurately will adversely affect the Company's results and viability.
Technology Risk	The Company's market involves rapidly evolving products and technological change. To succeed, the Company will need to research, develop, design, manufacture, assemble, test, market and support substantial enhancements to its existing products and new products, on a timely and cost-effective basis. The Company cannot guarantee that it will be able to engage in research and development at the requisite levels. The Company cannot ensure that it will successfully identify new technological opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner. At the same time, products and technologies developed by others may render the Company's products and systems obsolete or non-competitive.
Financial Environment	<p>Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company and the value of its assets. Factors which contribute to that general economic climate include:</p> <ul style="list-style-type: none"> • contractions in the world economy or increases in rates of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economic activity); • international currency fluctuations and changes in interest rates; • the demand for and supply of capital and finance; • changes in government legislation and regulatory policy, including with regard to rates and types of taxation; and • domestic and international economic and political conditions. <p>Additionally, share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by factors such as:</p> <ul style="list-style-type: none"> • general economic outlook; • interest rates and inflation rates; • currency fluctuations; • changes in investor sentiment toward particular market sectors; • the demand for, and supply of, capital; and • terrorism, pandemics, political instability, or other illegal acts.

Additional Requirements for Capital	The current funds held by the Company are considered sufficient to meet the current proposed objectives of the Company. Additional funding may be required in the event future costs exceed the Company's estimates to effectively implement its business and operations plans, to take advantage of opportunities for acquisitions, joint ventures or other business opportunities, or to meet any unanticipated liabilities or expenses which the Company may incur. The Company may seek to raise further funds through equity or debt financing, joint ventures or other means. Failure to obtain sufficient financing for the Company's activities and future projects may result in delay and indefinite postponement of its research and development programs. Any additional finance may not be available when needed or, if available, the terms of the financing might not be favourable to the Company and might involve substantial dilution to shareholders.
Intellectual Property Rights	A substantial part of the Company's commercial success is dependent on its ability to establish and protect its intellectual property, maintain trade secret protection, and operate without infringing third party rights. There can be no guarantee that the Company's patents are enforceable or that new patent applications will be granted in any jurisdiction. The commercial value of its intellectual property assets is dependent on any relevant legal protections. These legal mechanisms, however, do not guarantee that the intellectual property will be protected or that the Company's competitive position will be maintained. No assurance can be given that employees or third parties will not breach confidentiality agreements, infringe or misappropriate the Company's intellectual property or commercially sensitive information, or that competitors will not be able to produce non infringing competitive products. Competition in retaining and sustaining protection of technologies and the complex nature of technologies can lead to expensive and lengthy disputes for which there can be no guaranteed outcome. There can be no assurance that any intellectual property which the Company (or entities it deals with) may have an interest in now or in the future will afford the Company commercially significant protection of its intellectual property, or that any of the projects that may arise will have commercial applications. It is possible that third parties may assert intellectual property infringement, unfair competition or like claims regarding copyright, design, trade secret, patent, or other intellectual property rights. While the Company is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has or will acquire an interest, such claims, if made, may harm, directly or indirectly, the Company's business. If the Company is forced to defend claims of intellectual property infringement, whether they are with or without merit or are determined in the Company's favour, the costs of such litigation will be potentially significant and may divert management's attention from normal commercial operations. Additionally, securing rights to or developing technologies complementing the Company's existing intellectual property will also play an important part in the commercial success of the Company. There is no guarantee that such rights can be secured or such technologies can be developed.

Significant Events after the Balance Date

Subsequent to 30 June 2023, the following occurred;

- 4 July 2023
 - Five Eyes DoD awards DroneShield a record \$9.9 million contract
- 11 July 2023
 - DroneShield Assigned with NATO Stock Numbers
- 12 July 2023
 - 100,000 unlisted and vested Class AD options were issued to key personnel. Each are exercisable at \$0.30 per option and expire on 12 July 2025.
- 17 July 2023
 - DroneShield Awarded \$33 Million U.S. Government Contract
- 2 August 2023
 - DroneShield Launches Area-Specific Satellite Denial Systems

No other matter or circumstance has arisen since 30 June 2023 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 10.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
29 August 2023

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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 2023, 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
29 August 2023

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

N J Guest
Director

hlb.com.au

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	30 June 2023 \$	30 June 2022 \$
Revenue	2	11,546,610	3,672,791
Other income	3	358,891	233,559
Cost of sales		(2,342,875)	(1,069,956)
Product development expense	4	(4,434,012)	(3,098,109)
Sales and customer service expense	5	(3,295,939)	(1,517,943)
Corporate and support expense	6	(3,296,447)	(1,889,704)
Corporate governance expense	7	(596,825)	(342,864)
Share based payment expense	8	(874,414)	(919,598)
Loss before income tax		(2,935,011)	(4,931,824)
Income tax benefit		-	-
Loss after income tax		(2,935,011)	(4,931,824)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		(224,070)	(75,812)
Total comprehensive loss for the period		(3,159,081)	(5,007,636)
Basic loss per share (cents per share)	21	(0.60)	(1.17)
Diluted loss per share (cents per share)	21	(0.60)	(1.17)

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 2023 \$	31 December 2022 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	12,167,503	10,143,861
Trade and other receivables	10	8,897,600	8,316,648
Inventories	11	12,785,467	3,733,416
Other investments	12	30,233,561	75,000
Total current assets		64,084,131	22,268,925
Non-current assets			
Plant, equipment and intangible assets	13	2,393,867	2,436,271
Right-of-use assets	14	509,930	458,956
Other investments	12	-	42,900
Total non-current assets		2,903,797	2,938,127
Total assets		66,987,928	25,207,052
LIABILITIES			
Current liabilities			
Trade payables		2,590,621	564,231
Provisions	15	508,082	427,235
Other liabilities	16	8,405,174	4,555,326
Lease liabilities	18	322,235	526,045
Borrowings	17	-	70,052
Total current liabilities		11,826,112	6,142,889
Non-current liabilities			
Provisions	15	77,373	64,760
Lease liabilities	18	212,230	-
Total non-current liabilities		289,603	64,760
Total liabilities		12,115,715	6,207,649
Net assets		54,872,213	18,999,403
EQUITY			
Share capital	19	78,692,633	40,535,156
Reserves		5,738,485	5,088,141
Accumulated losses		(29,558,905)	(26,623,894)
Total equity		54,872,213	18,999,403

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 2023	40,535,156	4,866,513	221,628	(26,623,894)	18,999,403
Transfer from option reserve to accumulated losses	-	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	38,142,477	-	-	-	38,142,477
Net share-based payments movement	-	874,414	-	-	874,414
Repayment of management/ employee option	15,000	-	-	-	15,000
Equity transaction costs	-	-	-	-	-
	38,157,477	874,414	-	-	39,031,891
Exchange difference on translation of foreign operations	-	-	(224,070)	-	(224,070)
Loss for the period	-	-	-	(2,935,011)	(2,935,011)
Total comprehensive loss for the period	-	-	(224,070)	(2,935,011)	(3,159,081)
Balance at 30 June 2023	78,692,633	5,740,927	(2,442)	(29,558,905)	54,872,213
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

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 2023 \$	30 June 2022 \$
Cash flows from operating activities			
Receipts from customers		15,243,527	5,223,785
Payments to suppliers and employees		(20,573,358)	(7,873,257)
Other incentives received		14,938	142,769
Other receipts		15,000	39,459
Net cash flows used in operating activities		(5,299,893)	(2,467,244)
Cash flows from investing activities			
Purchase of plant and equipment		(657,150)	(221,674)
Investments in term deposits		(30,115,661)	-
Net cash flows used in investing activities		(30,772,811)	(221,674)
Cash flows from financing activities			
Proceeds from share issue		40,256,557	-
Transaction costs related to share issue		(2,247,081)	-
Interest income on cash deposits		191,821	2,002
Interest and other cost of finance paid		(15,651)	-
Payments for lease liabilities		(319,664)	(254,958)
Net cash flows (used in) provided by financing activities		37,865,982	(252,956)
Cash and cash equivalents at beginning of the period		10,143,861	9,419,235
Net increase (decrease) in cash and cash equivalents		1,793,278	(2,941,874)
Exchange rate adjustments to balances held in foreign currencies		230,364	111,562
Cash and cash equivalents at the end of the period	9	12,167,503	6,588,923

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 2022), 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 2023, the Group incurred a loss after income tax of \$2,935,011 and net cash outflows from operating activities of \$5,299,893, with cash and term deposits on hand at 30 June 2023 of \$42,401,064. At 30 June 2023, the Group had net assets of \$54,872,213 and an excess of current assets over current liabilities of \$52,258,019.

A cashflow 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. No material impact has been noted.

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 2023 \$	30 June 2022 \$
2. Revenue		
Hardware sales	7,683,689	2,807,253
Research and development revenue	2,769,020	583,649
Shipping revenue	212,294	109,596
Subscription revenue	663,464	140,030
Warranty Revenue	16,322	-
Total revenue from sales	11,344,789	3,640,528

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 24).

Timing of revenue recognition

At a point in time

Hardware sales including shipping income

- direct sales	6,436,618	1,936,800
- distributors	1,459,365	980,049

Research and development revenue

- direct sales	2,758,817	583,649
- distributors	10,203	-

Over time

Subscription services and warranty

- direct sales	473,850	107,692
- distributors	205,936	32,338

Total revenue from sales	11,344,789	3,640,528
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Other revenue

Interest revenue	191,821	2,003
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Sublease revenue	10,000	30,260
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Total other revenue	201,821	32,263
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Total revenue	11,546,610	3,672,791
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3. Other income

Awards and incentives income	14,938	74,782
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Net foreign exchange gains	343,953	158,777
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Total other income	358,891	233,559
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Notes to the Financial Statements *continued*

	30 June 2023 \$	30 June 2022 \$
4. Product development expense		
Consultants	209,028	272,670
Other	425,683	339,004
Payroll	3,728,589	2,413,031
Travel, accommodation and meals	70,712	73,404
Total product development expense	4,434,012	3,098,109
5. Sales and customer service expense		
Marketing and advertising	168,233	27,448
Other	591,522	280,935
Payroll	2,349,292	1,021,280
Travel, accommodation and entertainment	186,892	188,280
Total sales and customer service expense	3,295,939	1,517,943
6. Corporate and support expense		
Legal	185,276	62,204
Office costs and communication	470,437	360,152
Other	339,371	423,472
Payroll	1,447,190	707,439
Professional expenses	805,426	294,775
Travel, accommodation and entertainment	48,747	41,662
Total corporate and support expense	3,296,447	1,889,704
7. Corporate governance expense		
ASX fees	122,084	43,968
Board and Advisory Board expenses	103,998	74,996
Insurance	156,695	107,240
Other	181,420	84,262
Professional expenses	32,628	32,398
Total corporate governance expense	596,825	342,864

Notes to the Financial Statements *continued*

8. Options issued

During the half-year ended 30 June 2023, a number of options were issued to management and other employees of the Group. Using the Black-Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and June 2023.

	Class AC Options	Performance Options Note (a)	Other Options Note (b)	Total option expense for the period Note (c)
No of new options	3,140,000	700,000		
Expiry (years)	3.01	4.03		
Exercise price (\$)	0.35	0.00		
Vesting period (years)	0.00	4.03		
Underlying volatility	54.38%	n/a		
Risk free interest rate	2.99%	n/a		
Calculated fair value of each option (\$)	0.1037	n/a		
Total expense recorded for the period ended 30 June 2023 (\$)	325,614	10,413	538,387	874,414

Note (a): 700,000 Performance Options were issued 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.

Note (b): \$538,387 comprises of a vesting expense for Performance Options issued in 2022.

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, 2,749,168 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 2023 \$	31 December 2022 \$
9. Cash and cash equivalents		
Cash at bank and on hand	12,167,503	9,290,829
Short-term deposits	-	853,032
Total cash and cash equivalents	12,167,503	10,143,861

10. Trade and other receivables

Trade receivables	4,227,802	6,625,276
GST receivable	267,537	222,429
Deferred sales proceeds (see Note 16)	696,920	31,478
Prepayments	3,701,032	1,437,465
Other assets	4,309	-
Total trade and other receivables	8,897,600	8,316,648

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.

Age of receivables that are past due but not impaired.

>120 days	9,559	9,559
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Payment for sublease revenue is due as per the terms specified in the contract.

11. Inventories

Raw materials	7,425,189	2,403,734
Finished goods	5,360,278	1,329,682
Total inventories	12,785,467	3,733,416

DroneShield manages the obsolescence risk by keeping minimum required amounts of finished inventory, with a significant amount of stored inventory held as long lead items, many of which are used across multiple product lines.

12. Other investments

Current		
- Term Deposits	30,233,561	75,000
Non-current		
- Term Deposits	-	42,900
Total other investments	30,233,561	117,900

Notes to the Financial Statements *continued*

13. Plant, equipment and intangible assets

	Development equipment \$	Demonstration equipment \$	Office equipment \$	Plant & equipment \$	Intangible Assets (software) \$	Vehicles and trailers \$	Total \$
Balance at 1 January 2023	543,982	1,439,432	114,416	197,586	28,795	112,060	2,436,271
Additions	431,478	-	85,545	49,446	9,178	-	575,647
Disposals	-	(313,224)	-	-	-	-	(313,224)
Transfers from (to) other fixed asset categories	-	-	-	-	-	-	-
Transfer from (to) inventory	42,182	109,903	-	-	-	-	152,085
Depreciation	-	(341,201)	(52,547)	(52,279)	(7,299)	(10,397)	(463,723)
Exchange differences	-	1,915	467	-	-	4,429	6,811
Balance at 30 June 2023	1,017,642	896,825	147,881	194,753	30,674	106,092	2,393,867

	Cost \$	Accumulated depreciation \$	Carrying value \$
Development equipment	1,017,642	-	1,017,642
Demonstration equipment	1,669,070	(772,245)	896,825
Office equipment	482,698	(334,817)	147,881
Plant & Equipment	563,972	(369,219)	194,753
Vehicles and Trailers	161,858	(55,766)	106,092
Intangible Assets (software)	89,079	(58,405)	30,674
Balance at 30 June 2023	3,984,319	(1,590,452)	2,393,867
Development equipment	543,982	-	543,982
Demonstration equipment	2,030,428	(590,996)	1,439,432
Office equipment	395,063	(280,647)	114,416
Plant & Equipment	514,526	(316,940)	197,586
Vehicles and Trailers	155,654	(43,594)	112,060
Intangible Assets (software)	79,902	(51,107)	28,795
Balance at 31 December 2022	3,719,555	(1,283,284)	2,436,271

Notes to the Financial Statements *continued*

	30 June 2023 \$	31 December 2022 \$
14. Right-of-use asset		
Opening balance	458,956	-
Additions	310,436	949,790
Impairment	-	(557,465)
Depreciation	(259,462)	66,631
Closing balance	509,930	458,956
15. Provisions		
Current		
- Annual leave	508,082	427,235
Non-current		
- Long-service leave	77,373	64,760
Total provisions	585,455	491,995
16. Other liabilities		
Accrued expenses	2,416,542	478,285
Deferred revenue		
- Hardware sales	2,647,755	1,606,250
- Subscription services	1,988,002	1,664,521
- Other revenue	1,344,075	780,970
- Other liabilities	8,800	25,300
Total other liabilities	8,405,174	4,555,326
An assessment was made on the warranty expenditure incurred to date and whether the recognition of a provision for warranty claim is required. Based on the assessment a warranty provision is not material as at 30 June 2023.		
17. Borrowings		
Unsecured borrowing at amortised cost		
Insurance Premium Finance	-	70,052
Total borrowings	-	70,052
Amount due for settlement within 12 months	-	70,052
Amount due for settlement after 12 months	-	-

Notes to the Financial Statements *continued*

	30 June 2023 \$	31 December 2022 \$
18. Lease liabilities		
Amounts due for settlement within 12 months	322,235	526,045
Amounts due for settlement after 12 months	212,230	-
Total lease liabilities	534,465	526,045

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%.

19. Contributed equity

	No. of shares (Note a)	\$
Opening balances at 1 January 2023	451,041,985	40,535,156
Employee share buy back (Note b)	(1,025,000)	-
Shares issued following option exercise during period (Note c)	2,749,168	-
Share placement (Note d)	36,266,666	10,880,000
Share purchase plan (Note e)	97,870,792	29,361,558
Repayment of limited recourse loan issued to employee	-	15,000
Transaction costs in relation to shares issued (Note f)	-	(2,099,081)
Closing balance at 30 June 2023	586,903,611	78,692,633

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

Note b: Shares were issued to employees under the Company's Incentive Option Plan (IOP). These employees have ceased employment with the company and the loans made to them to fund the issue of the shares became repayable on the cessation of employment. The Company took back the issued shares at the outstanding loan amount in full settlement of the loan, in accordance with the IOP terms. No actual cash expenditure was incurred by the Company.

Note c: During the half-year, 2,749,168 options were exercised using limited-recourse loans, 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 nonrecourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates.

Note d: In February 2023, the Company issued 36,266,666 shares in a share placement. The issue price was \$0.30 per share and the total cash received from the placement of shares was \$10,880,000.

Note e: In March 2023, the Company issued 97,870,792 shares in a share purchase plan. The issue price was \$0.30 per share and the total cash received from the placement of shares was \$29,361,558.

Note f: Included in transaction costs is management, selling and success fees paid to brokers in relation to the February 2023 Share Placement and March 2023 Share Purchase Plan.

Notes to the Financial Statements *continued*

20. Shares and options

	Number of Shares	Number of Unlisted Options
Opening balances at 1 January 2023	451,041,985	35,755,001
Employee share buy back	(1,025,000)	-
Share placement	36,266,666	-
Share purchase plan	97,870,792	-
Options exercised during the period	2,749,168	(2,749,168)
Options lapsed during the period	-	(1,105,833)
Options issued to management and employees	-	3,840,000
Closing balance at 30 June 2023	586,903,611	35,740,000

Unlisted Options

3,840,000 Unlisted Options were issued to management and employees during the half-year to 30 June 2023. These Options are subject to various vesting conditions relating to length of employment with the Company and performance of the Company. See Note 8 for further details.

21. Earnings (loss) per share

	30 June 2023 \$	30 June 2022 \$
(a) Basic earnings (loss) per share		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.60)	(1.17)
(b) Dilutive earnings (loss) per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.60)	(1.17)
(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	486,526,236	422,305,184

Options

Unlisted Options on issue (refer to Note 20) are not included in the calculation of diluted earnings per share because they are considered to be antidilutive for the period ended 30 June 2023. These options and shares could potentially dilute basic earnings per share in future periods.

Notes to the Financial Statements *continued*

22. Contingent liabilities

As at 30 June 2023 there were no contingent liabilities.

23. Commitments

At 30 June 2023, contractual agreements existed to pay suppliers \$15,762,072 for the manufacturing of inventory.
At 31 December 2022 the balance was \$2,354,271.

24. 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 2023 and 30 June 2022.

Segment performance 30 June 2023	USA \$	Australia \$	Elimination \$	Total \$
Hardware sales including shipping income				
<i>direct sales</i>	5,604,886	831,732	-	6,436,618
<i>distributors</i>	198,064	1,261,301	-	1,459,365
Subscription and warranty services				
<i>direct sales</i>	429,896	43,954	-	473,850
<i>distributors</i>	-	205,936	-	205,936
Research and development revenue				
<i>direct sales</i>	91,067	2,667,750	-	2,758,817
<i>distributors</i>	-	10,203	-	10,203
Total revenue from sales	6,323,913	5,020,876	-	11,344,789
Other revenue	3	201,818	-	201,821
Total revenue	6,323,916	5,222,694	-	11,546,610
Other income	14,938	343,953	-	358,891
Depreciation	(138,491)	(584,695)	-	(723,186)
Profit (Loss) after income tax expense	3,454,600	(6,389,611)	-	(2,935,011)
Assets and liabilities				
Segment assets	6,825,975	73,620,186	(13,458,233)	66,987,928
Segment liabilities	(3,929,504)	(21,644,444)	13,458,233	(12,115,715)

Notes to the Financial Statements *continued*

24. Segment information continued

Segment performance 30 June 2022	USA \$	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)

25. Events after the reporting date

Subsequent to 30 June 2023, the following occurred;

- 4 July 2023
 - Five Eyes DoD awards DroneShield a record \$9.9 million contract
- 11 July 2023
 - DroneShield Assigned with NATO Stock Numbers
- 12 July 2023
 - 100,000 unlisted and vested Class AD options were issued to key personnel. Each are exercisable at \$0.30 per option and expire on 12 July 2025.
- 17 July 2023
 - DroneShield Awarded \$33 Million U.S. Government Contract
- 2 August 2023
 - DroneShield Launches Area-Specific Satellite Denial Systems

No other matter or circumstance has arisen since 30 June 2023 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 11 to 25 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 2023 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
29 August 2023



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 2023, 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 2023 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 2023 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
29 August 2023

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

N J Guest
Director