



DRONESHIELD

Quarterly Report

For the period ending
30 September 2023



Image: DroneShield brief at DSEI to the Honourable Stephen Smith, Australian High Commissioner to the UK, and co-author of the 2023 Defence Strategic Review

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

Quarterly Activities/Appendix 4C Cash Flow Report

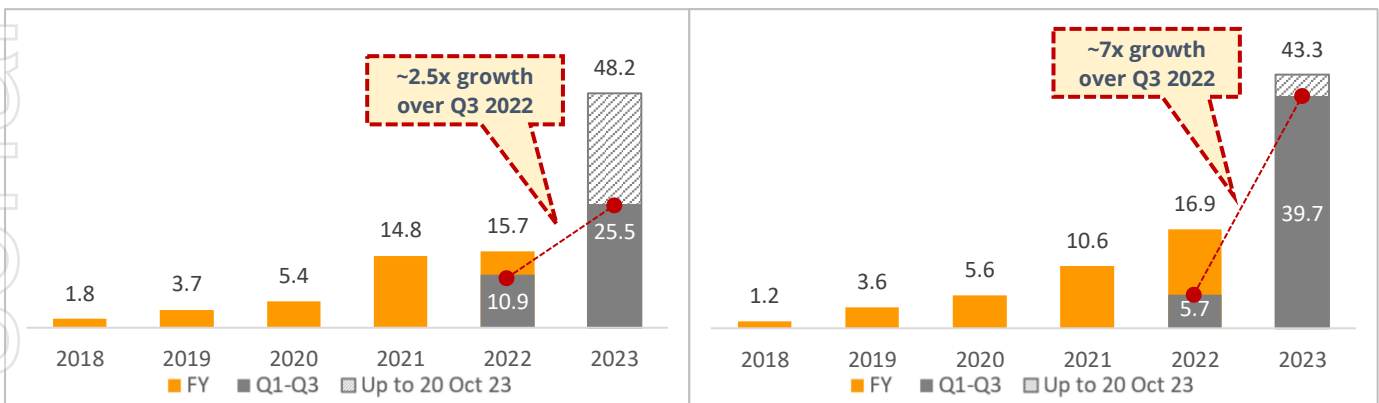
DroneShield Limited (ASX:DRO) ("DroneShield" or the "Company") is pleased to release its business update and Appendix 4C for the three-month period ended 30 September 2023.

Highlights

- Following an [all-time record \\$8.2m cash receipts](#) June 2023 quarter, DroneShield has recorded a **record of \$10.2m in customer cash receipts and grants** for the September 2023 quarter (grants accounted for \$2.5m).
- YTD **cash receipts and grants of \$48.2m** as at 20 October 2023, **up 3x** vs entire 2022 fiscal year. This included \$17.3m in cash receipts in the first week of October.
- YTD **revenues of \$43.3m** as at 20 October 2023, a **2.5x increase** vs entire 2022 fiscal year.

Cash Receipts Incl Grants (\$m)

Revenues (\$m)



- \$51m contracted order backlog, with over \$400m in sales pipeline.
 - Approximately 80 qualified opportunities, with no overweight exposure to any one customer.
- Cash balance of \$37.3 million at the end of September, reaching **\$50.1 million** by October 20.
- Successful launch of [DroneSentry-X Mk2](#), a state-of-the-art counterdrone solution, with pre-launch purchase orders. This is the second hardware launch this year after [DroneGun Mk4](#).
- Launch of [SensorFusionAI \("SFAI"\)](#), a sensor-agnostic, 3D data fusion engine for fixed site multi-sensor deployments. Following deployment of the engine within DroneShield's own Command-and-Control ("C2") software, [DroneSentry-C2](#), the Company has opened the module for third party C2 providers on SaaS licence basis, to monetise the capability where the customers prefer to use third party systems, such as those of defence prime contractors.
- The Company is moving to a new combined facility in Sydney, at 2.5x the space of the existing facility (the new facility is at 1,800m², with further expansion options available). The move will be completed by this December.
 - DroneShield's supply chain including its Adelaide manufacturing partner, have also been rapidly expanding to accommodate significantly higher production volumes.
 - Company capacity is being positioned for **annual production of \$300-400 million** in

products by 2024.

- Being able to manufacture own products inhouse as well as outsource lower-margin manufacturing to trusted third parties (with DroneShield remaining in full control of supply chain and encrypted code), enables further scaling in manufacturing as needed.

2024 Outlook and C-UAS Themes

DroneShield and its solutions continue to evolve and solidify the company as the global leader in the Counter-UAS (“C-UAS”) market. The company is uniquely positioned to capitalise on the growing demand for advanced counterdrone security solutions, thanks to its cutting-edge technology and strategic partnerships worldwide.

DroneShield continues to be in a favourable environment. Both the C-UAS industry and broader defence and security budgets are experiencing a significant upswing, creating a landscape for growth. With the team of 95 staff, with over 75 engineers, it is well-equipped to meet this demand.

Turning attention to the Ukraine conflict, a ceasefire is not expected in the near term, which means that direct demand for DroneShield systems will continue to be driven by military aid programs of various countries and procurement initiatives. However, this unfortunate situation has also underscored the critical need for C-UAS systems globally, as drones are increasingly being utilized in modern warfare in Ukraine and elsewhere. In fact, the global demand for C-UAS is expected to remain strong even after a potential ceasefire, as countries have now seen and realized the threat and will seek to prepare their own defences for future conflicts. Unlike some of the more established products used in battle (night vision goggles, helmets and body armour, firearms), virtually no country today has anywhere near the amount of C-UAS systems needed for their requirements, due to the nascent nature of C-UAS, with major acquisition programs expected to take place over next few years.

Drones have also been involved increasingly in other conflicts, most notably, the use of drones in the [Hamas terror attacks on Israel](#) earlier this month. The increasing role drones are playing for both offensive and defensive operations in every major conflict has caused defence and countermeasure technologies like those of DroneShield's to become priorities for requirements and future spending by nearly every government and military aligned with the West.

While drones don't replace traditional platforms such as tanks, artillery and ships, they disrupt these exquisite platforms (with a \$2k drone able to bring a tank to a halt), hence C-UAS becomes an enabler for such “king of the battlefield” platforms to continue to function effectively.

When the existing heavy armour platforms were designed (eg the Australian Army LAND400 Ph3 program, about 7-10 years ago), no one had considered the drone threat, and so most of the existing large defence platforms are not well equipped to deal with the emergence of drones, at least not in a cost-effective way – paving room for systems such as what DroneShield provides.

Out of various drone classes, classes 1-3 (the smaller drones, being DroneShield's focus) are continuing to be the main area of growth, compared to larger class 4-5 drones (such as Global Hawk), due to the high cost and vulnerability of those larger drones in contested environments. Historically, large drones have performed well in conflicts against an unsophisticated adversary (such as for anti-terror operations), however are largely unusable in contested airspace. For example, after the initial success, there are virtually no Bayraktar TB2 drones used in Ukraine now, due to the ease of the Russian military to take them down, and their \$5m/unit reported cost. Instead, ability to “mass” disposable drones against the enemy is proving a more successful strategy, with a military expression “quantity has quality of its own” once again proving true.

A further upside appeal (and procurement challenge) of C-UAS is its wide applicability - including protecting soldiers, vehicles, littoral ships, and bases. DroneShield is actively engaging these customer types/procurement entry channels across the spectrum and also geographies. Defence planners are starting to consider a systems approach, with integration of sensors, main weapon

systems, GBAD systems and ISR into a warn-detect-and-engage matrix that deals with the traditional land platform threat as well as C-UAS. The integration of technology with TTP (Tactics, Techniques and Procedures) is the expected way forward, with DroneShield's ease of integration and being compatible with all common interfaces (CoT including TAK & ATAK, gRPC, JSON via UDP & TCP, SAPIENT) positioning it well for deployments into such layered systems.

The United States is expected to continue to be the largest market for DroneShield, with a growing customer base across numerous government agencies across both military and non-military federal agencies (thus there is no true "single customer risk"). The Company is working on a number of opportunities, both directly and as a subcontractor.

Highlights in the US include:

- Selection as key member of one of three recommended consortia by the US DoD for Counter-UAS as a Service (CaaS). This is expected to lead to base deployments across the DoD. While implementation will take time due to the program's immense size, DroneShield is well-positioned with several of its product lines for inclusion in these rollouts once they begin.
- DroneShield's handheld and body-worn solutions have completed initial fielding with several US federal agencies this year, with broader rollouts planned in the short term.
- US funded opportunities focused on C-UAS continue to increase, as the threat of unmanned systems in major conflicts continues to grow in volume and frequency. The validation of DroneShield solutions by the US DoD and partner forces, enables DroneShield to support these opportunities as a trusted, vetted provider for leading off-the-shelf capabilities.

In addition to the growth activities in the US, DroneShield technology has also been involved in various other high-profile projects and initiatives recently in both Australia and across Europe:

- The Australian Defence Force (ADF) and associated agencies have placed orders with DroneShield for various C-UAS systems, with positive feedback. We expect continued demand from the ADF and other military organizations in Australia and beyond.
- Air Services Australia has recently announced a project to install C-UAS systems at 29 airports nationwide – an opportunity for which DroneShield is well positioned.
- An existing European customer who has purchased several fixed-site DroneSentry systems is now in discussions with DroneShield for a \$30m+ framework agreement for staggered deliveries over 2024-2025.

This is a testament to the versatility and effectiveness of DroneShield's technology and the ability of its team to address the breadth of drone security challenges and opportunities worldwide.

Across all its key markets, with both defense and commercial customer bases growing, DroneShield is poised for continued significant growth. The Company's leading position in an emerging space, coupled with its robust product line-up and technology roadmap, positions us well to capitalize on the maturing C-UAS market and opportunities.

DroneShield CEO, Oleg Vornik, commented: *"The Company is led by a stable and driven management team with a consistent track record of strong growth in the nascent C-UAS industry. With knockout results for 2023 to date, the team's focussed on continuing to rapidly scale operations in a cost-effective manner, while adding to the 2024 order book and pipeline. We intend to enter the new year with momentum."*

Payments to related parties of the entity and their associates

- Board fees paid to Non-Executive Directors and salary to CEO amounted to \$379k.

This announcement has been approved for release to ASX by the Board.

For enquiries, please contact:



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About DroneShield Limited

DroneShield (ASX:DRO) provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. We offer customers bespoke counterdrone (or counter-UAS) and electronic warfare solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime or airborne platforms. Our customers include military, intelligence community, Government, law enforcement, critical infrastructure, and airports.

To learn more about DroneShield click here: www.dronesield.com/about

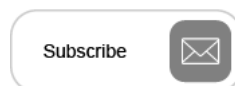
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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

DRONESHIELD LIMITED

ABN

26 608 915 859

Quarter ended ("current quarter")

30 September 2023

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
1.	Cash flows from operating activities		
1.1	Receipts from customers	7,736,143	22,979,670
1.2	Payments for research and development	(601,975)	(1,412,178)
	product manufacturing and operating costs		
	<i>These costs correspond to more than the current period of sales, due to advanced inventory purchases</i>	(9,324,530)	(18,341,693)
	advertising and marketing	(1,711,704)	(3,522,248)
	leased assets	-	-
	staff costs	(3,481,916)	(9,620,153)
	administration and corporate costs	(1,831,259)	(4,628,470)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	469,967	661,788
1.5	Interest and other costs of finance paid	(6,392)	(22,043)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	2,489,000	2,503,938
1.8	Other	-	15,000
1.9	Net cash from / (used in) operating activities	(6,262,666)	(11,386,389)

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	businesses	-	-
	property, plant and equipment	(301,710)	(958,860)
	investments	-	-

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
	intellectual property	-	-
	other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(b) entities	-	-
	businesses	-	-
	property, plant and equipment	-	-
	investments	-	-
	intellectual property	-	-
	other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(301,710)	(958,860)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities) <i>Total for the current quarter is related to repayments of Limited Recourse Loans provided by the company to employees for the exercise of options into shares</i>	1,685,006	41,941,563
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(2,247,081)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other <i>Lease liability principal repayments relating to DroneShield's Office leases in Sydney (Australia) and Virginia (USA)</i>	(158,968)	(478,632)
3.10	Net cash from / (used in) financing activities	1,526,038	39,215,850

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	42,401,065	10,261,761
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(6,262,666)	(11,386,389)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(301,710)	(958,860)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,526,038	39,215,850
4.5	Effect of movement in exchange rates on cash held	(65,827)	164,538
4.6	Cash and cash equivalents at end of period	37,296,900	37,296,900

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	17,012,687	12,167,504
5.2	Call deposits	209,213	10,158,561
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposits)	20,075,000	20,075,000
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	37,296,900	42,401,065

6.	Payments to related parties of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1 <i>Payments to CEO and Non-Executive Directors</i>	379,348
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		-

8.	Estimated cash available for future operating activities	\$A
8.1	Net cash from / (used in) operating activities (item 1.9)	(6,262,666)
8.2	Cash and cash equivalents at quarter end (item 4.6)	37,296,900
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	37,296,900
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	5.96
Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A		
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A		
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A		
Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 23 October 2023

Authorised by: Board of Directors

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.