Appendix 4E
For the year ended 31 December 2023

DroneShield Limited
ABN 26 608 915 859

1. Reporting period

The financial information contained in the attached consolidated financial report is for the year ended 31 December 2023. The previous corresponding period was the year ended 31 December 2022.

Results for announcement to the market				
	Up/ Down	% Movement		2023 $
Revenue from continuing activities	Up	226%	to	55,078,258
Profit from continuing activities after tax attributable to members	Up	1083%	to	9,334,387
Net profit attributable to members	Up	1083%	to	9,334,387
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 Annual Report.

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

31 December 2023: $0.15; 31 December 2022: $0.04

4. There was no change of control during the year

5. There were no payments of dividends during the 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 audited by HLB Mann Judd Assurance (NSW) Pty Ltd.

Further information regarding the company and its business activities can be obtained by visiting the company's website at www.droneshield.com

Annual Report

For the Year Ended
31 December 2023

Image: DroneShield's RfPatrol body-worn drone detector

DroneShield Limited (ASX:DRO)
ASX Release
ABN 26 608 915 859

Table of Contents

Corporate Information

Directors & Management

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

Registered Office

Level 5, 126 Phillip Street
Sydney, NSW 2000
Australia

Telephone: +61 2 9995 7280

Email: info@droneshield.com
Website: www.droneshield.com

Auditors

HLB Mann Judd Assurance (NSW) Pty Ltd
Level 5,10 Shelley Street
Sydney, NSW 2000
Australia

Bankers

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

Westpac
275 Kent Street
Sydney NSW 2000
Australia

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

Solicitors

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

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

MinterEllison
Level 11 Constitution Place
1 Constitution Avenue
Canberra City ACT 2601
Australia

Steinepreis Paganin
16 Milligan Street
Perth WA 6000
Australia

Share Registry

Automic Registry Services
Level 5, 126 Phillip St
Sydney, NSW 2000
Australia

Enquiries (within Australia): 1300 288 664
Enquiries (outside Australia): +61 2 9698 5414

Stock Exchange Listing

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

Chairman's Review

Peter James, Independent Non-Executive Chairman

Dear Fellow Shareholders,

2023 for DroneShield Limited ("DroneShield" or the "Company") was a truly transformational year for the business which created a strong foundation for continued growth.

Highlights for the year included:

- Revenue of $55.1 million – 3x growth on 2022 and continues the trend of the Company generating record revenues each year of its existence.
- Cash receipts from sales and grants of $73.5 million – 5x growth on 2022, another all-time record.
- Company's first profitable and cashflow positive year.
- Record $33 million order received in July, as well as numerous smaller contracts.
- Strong bank and term deposit balance of approximately $58 million as at 31 December 2023.
- Strong sales pipeline with over $400 million[1] in active project discussions for 2024 opportunities (risk unweighted).
- Substantial tailwinds for the defence industry with growing geopolitical tensions and an increase in Government spending in Australia and in other markets.

Drones and counterdrone systems are now used in every conflict globally, including the Ukraine war, Hamas attacks on Israel, Houthi attacks in the Red Sea, and most recently, the attacks on the U.S. bases in Jordan which killed 3 and injured over 30. Significant non-military use cases for drones continue for the intelligence community, airports, prisons, border security, stadiums, and other facilities. Nefarious use of drones is a global and rapidly rising threat, with DroneShield providing a proven market leading suite of solutions, directly and via its network of 70+ in-country partners globally.

DroneShield has continued to ramp up its mass production capabilities, moving its headquarters including a dedicated manufacturing facility to a 3x larger space in Pyrmont, scaling its existing outsourced manufacturer and setting up a second outsourced manufacturer, growing its supply chain, inventory and deployment aspects, and doubling its team to over 100 staff, during 2023. These measures will assist immediate or short-term fulfilment of customer orders, including anticipated record-size orders.

The Company is engineering-led, with 90 software and hardware engineers out of 115 staff. This continues ongoing focus on product development, with DroneGun Mk4 and DroneSentry-X Mk2 released during 2023, as well as quarterly AI firmware updates (with SaaS revenue experiencing 4x growth to $1.4m in 2023).

The Australian Government continues to strongly encourage the growth of the domestic defence industry. This included a $10 million contract for Ukraine deployment in late 2023, as well as a new $10 million Electronic Warfare contract in mid-2023, following on the successful completion of the earlier awarded $3.8 million Electronic Warfare contract.

The U.S. Government and military market is expected to be the single largest opportunity for DroneShield, being the largest counterdrone customer in the world, and accounting for 68% of the Company's 2023 revenues (Australia being the second largest contributor at 23%).

At the macro level, international tensions and greyzone warfare (which C-UAS, Electronic Warfare (EW) and related areas are a key part of) continue to rise, driving increases in security and national defence budgets. The Company currently offers its products in over 70 countries and the diversity of its pipeline is one of its key strengths.

Image: DroneShield at 2023 AUSA (Association of United States Army Annual Meeting and Exposition)

On behalf of the Board, I would like to thank our executive team for their significant contributions during the past year.

I would also like to thank our fellow shareholders for your support and look forward to continued growth of the Company.

Peter James
Independent Non-Executive Chairman

---

[1] Necessarily, not all (and there can be no assurance that any) of the Company's sales opportunities will result in sales.

About DroneShield

DroneShield (ASX:DRO) provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. It offers 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. The customers include military, intelligence community, Government, law enforcement, critical infrastructure, and airports globally.

History of DroneShield

Founded on 10 January 2014, the DroneShield business began as DroneShield LLC in the U.S. On 4 November 2015, DroneShield Limited was incorporated in Australia for the primary purpose of listing on the ASX and engaging in the business of offering products manufactured by DroneShield globally, as well as managing and operating DroneShield's business.

DroneShield Limited listed on the ASX on 22 June 2016, raising $7 million on a $20 million valuation in an oversubscribed initial public offer ("IPO"). In March 2023, its last capital raise, DroneShield raised $40.3 million via a placement and Share Purchase Plan ("SPP").

DroneShield has grown from a small start-up to a global leader in C-UAS detection and mitigation.

Business Model and Products

Affordable consumer-grade drones ("UAS") have become popular around the world, but they present unique and frequent threats to privacy, physical security and public safety in a wide variety of environments. DroneShield offers products that detect and defeat such drones to militaries, civil infrastructure operators and other government and commercial users globally. DroneShield's distribution channels focus on third party distributors, as well as direct relationships with various key customers. With offices in Australia and the United States, DroneShield has an experienced salesforce with distribution partners across over 70 countries. The end-users of DroneShield's products come from a diverse array of global sectors, including the following:

- Defence and intelligence agencies.
- Airports and other civil defence users.
- Utilities such as power plants, electricity grids and gas pipelines.
- Ports and other critical infrastructure asset owners.
- Intelligence and national security agencies.
- Prisons.
- Stadiums and other public event venues and organisers.
- Media production sites.
- Real estate owners including hotels, commercial offices and manufacturing plants.
- Executive protection including ultra-high net worth individuals and government officials.

DroneShield offers a comprehensive solution to drone threats with a suite of detection and countermeasure products.

The main product range is as follows:

 DroneGun Tactical™	• Portable rifle shape drone disruptor, causing the drone (or swarm) to safely land, or fly back to the starting point (potentially identifying the pilot) • 7kg weight • Best-in-breed effective range • Released in early 2018
 DroneGun Mk4™	• Latest DroneGun design, taking into account 7 years of DroneGun sales • Significantly deployed by US DoD, allied forces and other customers • Suitable for mobile deployments, patrols, law enforcement and special forces • Released in April 2023

 DroneGun Mk3™	• Pistol shaped compact drone disruptor • Lightest product in the DroneGun range at 2kg weight including battery • Suitable for mobile deployments, patrols, law enforcement and special forces • Existing sales globally • Released in mid-2019
 RfPatrol Mk2™	• Body-worn drone detection device • Best-in-breed detection range • Can be used with a directional accessory (DAU™) to determine direction of the threat as well as vehicle kit • Completely passive (no RF emissions) • Deployments include global military and intelligence customers • Receives quarterly software updates via a SaaS model • Mk2 version released in mid-2020
 DroneSentry™	• Integrated detect-and-defeat system • Best-in-breed detection and defeat range • Includes radiofrequency direction finders, radars and cameras in a modular manner, with an integrated DroneCannon™ drone disruptor • Utilises DroneShield proprietary DroneSentry-C2™ counterdrone software command-and-control engine • The camera includes DroneOptID™, DroneShield proprietary AI computervision software to detect and track drone targets • Successfully deployed in multiple locations globally, in full or modular forms, across military and Government customer base • Receives quarterly software updates via a SaaS model
 DroneSentry-X Mk2™	• Integrated detect-and-defeat counterdrone solution • Best-in-breed detection and defeat range • Deployable on a vehicle, ship or fixed site platforms • Existing customers include US Government agencies and other Government and military departments globally • Receives quarterly software updates via a SaaS model • Mk2 version launched in October 2023

Underpinning all DroneShield's detection products is the Company's proprietary software engine RFAI™, with quarterly software updates on a subscription basis.

The second subscription software product, DroneSentry-C2™, is the Company's Command-and-Control platform on its DroneSentry™ multi-sensor system. It is an intuitive interface with a comprehensive reporting suite, which can combine a number of customer sites deploying both DroneShield's and third-party sensor hardware. An optional additional module to DroneSentry-C2™ is DroneOptID™, the company's optical/thermal AI-based detection engine.

Image: DroneSentry-C2™

Artificial Intelligence R&D Defence Contracts

During the year, DroneShield received a $10 million, 2-year, R&D contract in AI applied in the Electronic Warfare domain with the Australian Department of Defence (DoD), following on the earlier $3.8 million contract's successful completion.

Additional, and larger, contracts are anticipated with the Australian DoD, as well as potentially the U.S. Department of Defense.

Revenue Model and Recurring Cashflows

DroneSentry™, DroneSentry-X™ and RfPatrol™ products have a recurring revenue element which it charges for RFAI™ quarterly updates to the drone libraries of the products. Over time, DroneShield expects to build a robust recurring revenue line as more products requiring library updates are sold.

DroneSentry-C2™, the command-and-control software for DroneShield and third-party sensors, is offered on a subscription basis (via on-prem or secure cloud solution). Within that, DroneOptID™ offers a third subscription product, as an add-on to DroneSentry-C2™. Further, in December 2023 DroneShield released DroneSentry-C2 Tactical™, a subscription-based C2 for tactical devices such as RfPatrol™ and DroneSentry-X™ units.

Defence and Government agency markets are typically of a recurring nature, with repeat contracts following initial successful deployments. DroneShield has received repeat customer orders globally on that basis.

Board of Directors and Executives

Peter James; Independent Non-Executive Chairman

Mr. James has over 30 years' experience in the Technology, Telecommunications and Media Industries, and has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. He is currently Chair of ASX-listed companies Macquarie Telecom, Halo Food Co. and Ansarada. Most recently, Mr. James was the chair of Nearmap, which was sold to Thoma Bravo (US private equity firm) for $1.06 billion, in December 2022.

Mr. James joined the Board of DroneShield on 1 April 2016. Mr. James is an experienced business leader with significant strategic and operational expertise. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Computer Society and holds a BA degree with Majors in Computer Science and Business.

Oleg Vornik; CEO and Managing Director

Mr. Vornik is an experienced senior executive with previous roles at the Royal Bank of Canada, Brookfield, Deutsche Bank and ABN AMRO.

Prior to becoming the CEO of DroneShield, Mr. Vornik was its Chief Financial Officer. His previous experience includes the Sydney office of the Royal Bank of Canada as well as with Brookfield Asset Management, Deutsche Bank and ABN AMRO in Australia and New Zealand. Mr. Vornik holds a BSc (Mathematics) and BCom (Hons) from the University of Canterbury, New Zealand and has completed a business program with Columbia University in New York.

After co-leading the Company in the role of the Chief Financial Officer for over a year, Mr. Vornik was appointed as the CEO and Managing Director of DroneShield on 24 January 2017. Mr. Vornik does not hold any other public company directorships.

Jethro Marks; Independent Non-Executive Director

Mr. Marks is a Sydney-based CEO and co-founder of The Nile Group, an eCommerce retail, services, logistics and outsourcing business. Over 17 years Mr. Marks has led, and continuously grown, the business at the forefront of digital commerce, marketing and international logistics, while competing with the largest retailers globally. Mr. Marks brings to the Board extensive commercial experience in successfully scaling a multinational business.

The Nile Group's global supply chain and award-winning logistics capability has extended to most consumer goods categories in multiple countries, and today carries 32 million products. This capability has extended to provisioning international logistics support to multinational brands and technology companies.

Mr. Marks graduated from the University of Auckland, with a Bachelor of Commerce (Honours).

Mr. Marks joined the Board on 16 January 2020. Mr. Marks does not hold any other public company directorships.

Matt McCrann; CEO, DroneShield LLC (USA)

Mr. McCrann is an experienced business development executive, having previously built and led business units for enterprises delivering innovative technology to military, intelligence, public safety, and law enforcement communities worldwide. Mr McCrann brings to DroneShield more than 15 years of experience in the Defense and National Security sector with significant roles spanning Sales, Operations, and Engineering.

Mr. McCrann has industry certifications and specialised training in RF and wireless communications and is a member of numerous industry and government organisations including; National Defense Industrial Association (NDIA), Armed Forces Communications and Electronics Association (AFCEA), Association of the United States Army (AUSA), and American Correctional Association (ACA).

Angus Bean; Chief Technology Officer

With a background in Industrial Design and Mechanical Engineering, Angus Bean brings a wealth of knowledge in product development through to production management. Mr. Bean merges the various fields of mechanical hardware, electronics, software, digital interface and technology.

Mr. Bean joined DroneShield early in 2016, since then has been a driving force in DroneShield's technology team, working to build the team and the technology to deliver on key projects and milestones. Previous to DroneShield, Mr. Bean was the Development Lead for Australia's largest and most prominent industrial design and engineering consultancy.

Over his career, Mr. Bean has adopted both a collaborative and leadership role on a number of projects which have attracted multiple Australian and International Awards in Innovation, Consumer Electronics, Defence and Cyber Security. Mr. Bean holds a BDesign in Industrial Design (First Class Hon) from the University of Technology Sydney.

Carla Balanco; CFO and Joint Company Secretary

Mrs. Balanco is a member of Chartered Accountants Australia & New Zealand (CA ANZ). She holds an Honours in Accounting from the University of Johannesburg and an Honours in Accounting Science from the University of South Africa.

Mrs. Balanco started her career working for Chartered firms Crowe Horwath and HLB Mann Judd in the audit division. She moved on from Chartered to gain experience working in Commercial and Business Development roles.

Since joining DroneShield in 2018, she has spearheaded improvements to critical systems and internal controls and has been instrumental in scaling the Company's financial management systems. Today, as CFO and Joint Company Secretary, Mrs. Balanco oversees statutory reporting, management reporting, payroll, treasury, administration, and compliance for the global DroneShield Group of companies.

Mrs. Balanco was selected as a finalist in the 2021 ADM's Women in Defence Awards and 2020 Australian Defence Industry Awards.

Paul Cenoz; General Counsel and Joint Company Secretary

Mr. Cenoz joined DroneShield in 2023. He is admitted to practice law in California and NSW.

Mr. Cenoz previously worked as a solicitor with MurdockCheng Legal Practice in Melbourne, and as an attorney with Cox Wootton Lerner in Los Angeles.

Prior to DroneShield, he was COO and General Counsel for OSINT Combine, facilitating a successful exit to Alpine Software Group. In 2014, Mr. Cenoz co-founded Morning Consult, a market research and media company in Washington, DC. After moving to Australia, he co-founded the North American Australian Lawyers Alliance (NAALA) in February 2019, an organisation focused on creating a community to support strong ties between North America and Australia.

Raffael Blattner; Operations Manager

Mr. Blattner has over 15 years of experience in Manufacturing and Operations Management.

Prior to joining DroneShield, Mr. Blattner held management positions in deep-tech start-ups as well as corporate organisations delivering products and projects into the automotive, telecommunications and industrial market.

Mr. Blattner has a wealth of experience developing and improving operational processes in a fast-paced scale-up environment. Mr. Blattner holds an Engineering qualification in Mechatronics and Project Management from a Swiss Advanced Business School for Engineers.

Tom Branstetter, U.S. Director of Business Development

Mr. Branstetter is a U.S. Navy veteran and former Navy SEAL. Upon separation from active duty in 2010, he began work as a high-threat protective officer for the U.S. government.

Mr. Branstetter now serves as the Director of Business Development for DroneShield's U.S. operations focusing on overall growth across DoD and other federal agencies. Tom's responsibilities include identifying and developing new business opportunities as well as expanding brand presence. Additional areas of focus include leading cross-functional teams and managing existing partnerships.

Mr. Branstetter holds a Bachelor of Arts degree in Entrepreneurship.

Directors' Report

Your Directors present their report for DroneShield Limited (the "Company") and its controlled entities ("the Group") for the year ended 31 December 2023.

Directors

The names of the Company's Directors in office during the year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated. Details of the current members of the Board, including their experience, qualifications, special responsibilities and term of office are included on page 7 of the Annual Report.

Name	Position	Effective date
Directors		
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.
Oleg Vornik	Executive Director, CEO and Managing Director	Appointed as CEO and Managing Director 24 January 2017.
Jethro Marks	Independent Non-Executive Director	Appointed 16 January 2020.

Meetings of Directors

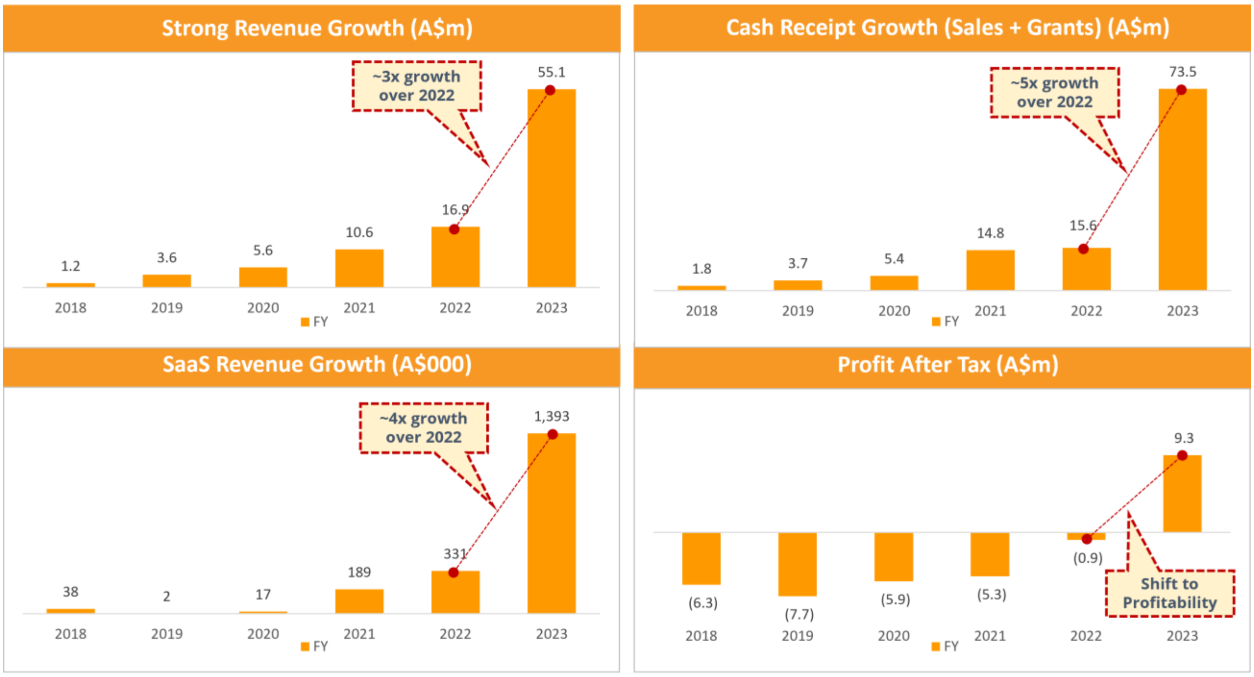
Name	Meetings eligible to attend	Meetings attended
Directors		
Peter James	12	12
Oleg Vornik	12	12
Jethro Marks	12	12

Review of Operations and Financial Results

The Company recorded another record results year by a substantial margin, with revenues up 3x to $55.1 million, while cash receipts from sales and grants have risen to $73.5 million. The counterdrone industry continues to rapidly grow and defence and security budgets rise with an increasing uncertainty globally, underscored by the Ukraine war, conflicts in the Middle East and other global hotspots with extensive use of drones by various parties.

DroneShield also had its first profitable year of $9.3 million profit after tax, as well as positive operational cashflow, as well as seeing 4x growth in its SaaS revenue to $1.4 million.

This performance has continued a string of record years for the business since its listing in 2016. The closing cash and term deposits balance as at 31 December 2023 was $57.9 million, providing a strong base for working capital for rapid order fulfilment.



The share price for 2023 has increased 64% (vs 9% for ASX300).

Highlights during the year have included (in chronological order, starting with most recent):

- Release of DroneSentry-C2 Tactical, a SaaS-based intuitive, tablet-based command-and-control version of its DroneSentry-C2 software for field-based operators to maintain awareness of multiple portable, on-the-move and fixed site systems.
- Collaboration with Lockheed Martin on the Australian Government's Agile Shield Program.
- $10.4 million military assistance package to Ukraine funded by Australian Government.
- Integration of RADA RPS-82 long range radar into DroneShield's multi-sensor flagship system, DroneSentry, accompanied by enhancement of the Company's Blue Mountains test site.
- Launch of SensorFusionAI ("SFAI"), a sensor-agnostic 3D datafusion engine for complex environments. The engine is currently deployed as a module in DroneSentry-C2, and the launch enables SFAI as a standalone module to integrate into third party C2 systems on SaaS basis, providing smart fusion capability from diverse sensor arrays.
- Launch of DroneSentry-X Mk2, a multi-mission C-UAS solution for mobile and expeditionary fixed-site applications.
- Launch of Area-Specific Satellite Denial Systems.
- $33 million US Government contract.
- Receiving additional NATO Stock Numbers.
- Receiving $9.9 million 2-year R&D contract.

- Release of DroneLocator, enabling receiving additional intelligence from detected drones.
- An $11 million order from a Government agency customer.
- Completion of integration with Epirus's Leonidas high-powered microwave C-UAS effector.
- Release of DroneGun Mk4, the latest in its highly successful DroneGun handheld C-UAS effector family.
- Initial Unmanned Traffic Management (UTM) system order.
- Admission to the MSCI Global Micro Cap Index.
- Additionally, DroneShield has progressed significant scale up of operations, including moving to a new facility in Pyrmont (Sydney) with 3x floorspace compared to the previous facility, scaling its supply chain, and commencing onboarding of the second outsourced manufacturer based in Sydney.

Principal Activities

The principal activity of the Company is the development, commercialisation and sales of hardware and software technology for drone detection and security.

Significant Changes in the State of Affairs

Other than discussed in the Review of Operations above, there have been no significant changes in the state of affairs of the Company during the year ended 31 December 2023.

Significant Events after the Balance Date

Subsequent to 31 December 2023, the following occurred;

- In January 2024, the Company held a General Meeting in which shareholder approval was obtained for the award of Performance Options to Directors.
- Subsequent to the General Meeting, 44.9 million Performance Options and 5.85 million options with an exercise price of $0.45 were issued to the Directors and key staff.
- In January 2024, 700,000 shares were issued to key staff due to vesting of Performance Options.
- Also in January 2024, the Company launched DroneSentry-X2 Mk2 Expeditionary Fixed Site Kit.
- In February 2024, 519,000 options with an exercise price of $0.76 were issued to key staff.

Likely developments and expected results of operations

Refer to the Chairman's Review to shareholders, on page 3, for further information on likely developments and expected results of the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were declared or paid to shareholders during the financial year (2022: $nil).

Insurance of officers

During or since the end of the financial year the Company has paid, or agreed to pay, premiums to insure persons who are, or have been, an officer of the Company, or any past, present or future Director or officer of the Company. The contracts prohibit disclosure of the amount of the premium paid. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the Group.

Proceedings on behalf of the Company

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (HLB Mann Judd Assurance (NSW) Pty Ltd) and other related firms for audit and non-audit services provided during the year are outlined in Note 30 of the financial statements.

The Board of Directors has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services provided by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the objectives and impartiality of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, including review or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

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 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	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: • 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	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.
Litigation	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.
Government Legislation	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.
Data Loss, Theft or Corruption	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. 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.
Foreign Exchange	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.
Accounting Standards and Tax Laws	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.

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	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: • 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. 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: • 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.

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 25.

Directors' Report- Remuneration Report (audited)

Executive remuneration governance

The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders having consideration to the amount deemed to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

Remuneration committee

Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have a Remuneration Committee. In accordance with the Company's Corporate Governance Plan, which is available on the Company's website https://www.droneshield.com/investors, the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration Committee under the written terms of reference for that committee.

The Board will devote time on an annual basis to fulfil the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive. The Managing Director of the Company is responsible for evaluating the performance of senior executives on an annual basis. The Board of Directors is responsible for overseeing the Managing Director's performance evaluations. This evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Directors' remuneration

The remuneration of an Executive Director is decided by the Board, without the affected Executive Director participating in that decision-making process.

The total maximum remuneration of Non-Executive Directors is initially set by the Board and subsequent variation is by ordinary resolution of shareholders in general meeting in accordance with the Constitution, the *Corporations Act 2001* and the ASX Listing Rules, as applicable.

The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director. The current amount has been set at an amount not to exceed $500,000 per annum.

In addition, a Director may be paid fees or other amounts (i.e. subject to any necessary shareholder approval, non-cash performance incentives such as options) as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Group's remuneration policy for Executive Directors (including the Managing Director) and senior management is designed to promote superior performance and long-term commitment to the Group. Executives receive a base remuneration which is market related and may also be entitled to performance-based remuneration at the ultimate discretion of the Board.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is in the interests of the Group and the Company's shareholders to do so.

Executive remuneration framework

The Group's reward policy reflects the benefits of aligning executive remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Group. The main principles of the policy are:

(a) remuneration is reasonable and fair, taking into account the Group's obligations at law, the competitive market in which the Group operates and the relative size and scale of the Group's business;
(b) individual reward should be linked to clearly specified performance targets which should be aligned to the Group's short term and long-term performance objectives; and
(c) executives should be rewarded for both financial and non-financial performance.

Directors' Report- Remuneration Report *continued*

The total remuneration of Executive Directors (including the Managing Director) and other senior managers consist of the following:

(a) Salary – Executive Directors and senior managers may receive a fixed sum payable monthly in cash;
(b) Short term incentive –the Board may at its discretion award bonuses for exceptional performance in relation to each person's pre-agreed Key Performance Indicators;
(c) Post-employment benefits – this refers to superannuation schemes; and
(d) Long term incentives – Executive Directors may participate in share option schemes with the prior approval of shareholders. Executives may also participate in employee share option schemes, with any option issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board, however, considers it appropriate to retain the flexibility to issue options to executives outside of approved Employee Option Plans in exceptional circumstances.

KMP remuneration disclosures in detail

The Directors and other Key Management Personnel ("KMP") of the Company during or since the end of the financial year were:

Name	Position	Effective date
Non-Executive Directors		
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.
Executive Director		
Oleg Vornik	Executive Director, Managing Director and CEO	Appointed as CEO and Managing Director 24 January 2017.

Directors' Report- Remuneration Report *continued*

Shareholdings of KMP

The number of shares in the Company and subsidiary held during the financial year by each Director of DroneShield and other KMP (of which there are none), including their personally related entities, are set out in the following table:

31 December 2023	Opening balance (Number)	(a) Received on exercise of options (Number)	(b) Sold (Number)	(c) Purchased (Number)	Balance at 31 December 2023 (Number)
Non-Executive Directors					
Peter James	9,301,688	5,132,500	(8,002,158)	100,000	6,532,030
Jethro Marks	666,666	1,083,334	(457,099)	-	1,292,901
Executive Director					
Oleg Vornik	15,310,356	10,250,000	(15,204,318)	100,000	10,456,038
Total	**25,278,710**	**16,465,834**	**(23,663,575)**	**200,000**	**18,280,969**

Notes

(a) 465,834 options exercised during the year were exercised at $0.65 per share, using a limited recourse loan provided by the Company. The loan is interest free and due for repayment by 18 March 2027. The loan is non-recourse except against the shares issued on exercise of the options and are held by the Directors.
16,000,000 options exercised were Performance Options, which vested during the year.
(b) Shares sold during the year were substantially to cover tax liability associated with vesting of DroneShield options.
(c) Shares purchased as part of Share Purchase Plan held in March 2023.

31 December 2022	Opening balance (Number)	(a) Received on exercise of options (Number)	(b) Other changes (Number)	Balance at 31 December 2022 (Number)
Non-Executive Directors				
Peter James	10,052,522	132,500	(883,334)	9,301,688
Jethro Marks	583,333	83,333	-	666,666
Executive Director				
Oleg Vornik	16,827,022	250,000	(1,766,666)	15,310,356
Total	**27,462,877**	**465,833**	**(2,650,000)**	**25,278,710**

Notes

(a) The options exercised during the year were exercised at $0.65 per share, using a limited recourse loan provided by the Company. The loan is interest free and due for repayment by 18 March 2027. The loan is non-recourse except against the shares issued on exercise of the options and are held by the Directors.
(b) Shares sold during the year to cover tax liability associated with vesting of DroneShield options.

Directors' Report- Remuneration Report *continued*

Share options held by KMP

31 December 2023	Opening balance (Number)	Granted as compensation (Number)	Options lapsed (Number)	(a) Options exercised (Number)	Balance at 31 December 2022 (Number)	Vested Options December 2023 (Number)	Unvested Options December 2023 (Number)
Non-Executive Directors							
Peter James	5,132,500	-	-	5,132,500	-	-	-
Jethro Marks	1,083,334	-	-	1,083,334	-	-	-
Executive Director							
Oleg Vornik	10,250,000	-	-	10,250,000	-	-	-
Total	**16,465,834**	**-**	**-**	**16,465,834**	**-**	**-**	**-**

Notes

(a) 465,834 options exercised during the year were exercised at $0.65 per share, using a limited recourse loan provided by the Company. The loan is interest free and due for repayment by 18 March 2027. The loan is non-recourse except against the shares issued on exercise of the options and are held by the Directors.
16,000,000 options exercised were Performance Options, which vested during the year.

31 December 2022	Opening balance (Number)	Granted as compensation (Number)	Options lapsed (Number)	(a) Options exercised (Number)	Balance at 31 December 2022 (Number)	Vested Options December 2022 (Number)	Unvested Options December 2022 (Number)
Non-Executive Directors							
Peter James	662,500	5,000,000	(397,500)	(132,500)	5,132,500	132,500	5,000,000
Jethro Marks	166,667	1,000,000	-	(83,333)	1,083,334	83,334	1,000,000
Executive Director							
Oleg Vornik	1,250,000	10,000,000	(750,000)	(250,000)	10,250,000	250,000	10,000,000
Total	**2,079,167**	**16,000,000**	**(1,147,500)**	**(465,833)**	**16,465,834**	**465,834**	**16,000,000**

Notes

(a) The options exercised during the year were exercised at $0.65 per share, using a limited recourse loan provided by the Company. The loan is interest free and due for repayment by 18 March 2027. The loan is non-recourse except against the shares issued on exercise of the options and are held by the Directors.

Directors' Report- Remuneration Report *continued*

Performance based remuneration granted and exercised during the year

	31 December 2023		31 December 2022	
	(a) Value granted $	(b) Value exercised $	(a) Value granted $	(b) Value exercised $
Non-Executive Directors				
Peter James	-	1,188,515	1,175,000	13,515
Jethro Marks	-	237,429	235,000	2,429
Executive Directors				
Oleg Vornik	-	2,375,499	2,350,000	25,499
Total	**-**	**3,801,443**	**3,760,000**	**41,443**

Notes

(a) The value at grant date is calculated using the Black-Scholes Model.
(b) The value of the options exercised is calculated using the Black-Scholes Model.

Terms and conditions of the share-based payment arrangements

There were no options granted to Directors during 2023. Refer to the table below for options granted to Directors during 2022.

Class of Options issued during 2022	Number of Options	Grant date	Vesting date	Expiry date	Exercise Price	Value per option at grant date $	Performance achieved	% Vested during 2022
Performance Options	16,000,000	26-Apr-22	29-Apr-27	29-Apr-27	-	0.24	No	0%

Directors' Report- Remuneration Report *continued*

Remuneration details of KMP

31 December 2023	Salary and fees $	Performance Bonus $	Movement in employee provisions $	Post-employment benefits $	Share based payments (options) $	Total $
Non-Executive Directors						
Peter James	110,000	-	-	-	1,015,591	1,125,591
Jethro Marks	50,000	-	-	-	203,007	253,007
Executive Director						
Oleg Vornik	330,000	495,000	(21,193)	26,346	2,030,071	2,860,224
Total	**490,000**	**495,000**	**(21,193)**	**26,346**	**3,248,669**	**4,238,822**

31 December 2022	Salary and fees $	Movement in employee provisions $	Post-employment benefits $	Share based payments (options) $	Total $
Non-Executive Directors					
Peter James	99,993	-	-	93,442	193,435
Jethro Marks	50,000	-	-	32,977	82,977
Executive Director					
Oleg Vornik	306,195	(10,022)	24,430	195,463	516,066
Total	**456,188**	**(10,022)**	**24,430**	**321,882**	**792,478**

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed		**Performance**	
	2023	**2022**	**2023**	**2022**
Non-Executive Directors				
Peter James	10%	52%	90%	48%
Jethro Marks	20%	60%	80%	40%
Executive Director				
Oleg Vornik	12%	62%	88%	38%

The performance component of remuneration received by Directors relates to share options and cash performance bonus. The issue of share options to Directors is subject to shareholder approval. Remuneration in the form of DroneShield share options is used as a tool to align KMP remuneration with shareholder interests.

The employment agreement of the Executive Director during the year included the following key terms:

Name	Positions held during the year	Key terms of employment agreement
Oleg Vornik	CEO and Managing Director	- Remuneration of $330,000p.a. plus superannuation - Eligible to participate in short term incentive program - Eligible to participate in long term incentive program - A notice period of 3 months, except in defined circumstances - No fixed term

Directors' Report- Remuneration Report *continued*

Advisory Board remuneration

For the years ended 2023 and 2022, there was no Advisory Board.

End of Remuneration Report.

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

Peter James
Independent Non-Executive Chairman
Sydney, NSW
28 February 2024

HLB MANN JUDD

Auditor's Independence Declaration

To the directors of DroneShield Limited:

As lead auditor for the audit of the consolidated financial report of DroneShield Limited for the year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to DroneShield Limited and the entities it controlled during the year.

Sydney, NSW
28 February 2024

N J Guest
Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	31 December 2023 $	31 December 2022 $
Revenue	**3**	**55,078,258**	**16,886,081**
Other income (loss)	**4**	(387,344)	272,254
Cost of sales		(15,137,250)	(4,976,034)
Product development expense	**5**	(11,061,821)	(6,616,104)
Sales and customer service expense	**6**	(11,662,611)	(3,302,029)
Corporate and support expense	**7**	(7,305,680)	(3,689,389)
Corporate governance expense	**8**	(1,083,241)	(787,730)
Share based payment expense	**9**	(5,274,053)	(715,881)
Profit (loss) before income tax		**3,166,258**	**(2,928,832)**
Income tax benefit	**10**	6,168,129	1,979,531
Profit (loss) after income tax		**9,334,387**	**(949,301)**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Adjustments on translation of foreign controlled entity		1,060,968	97,420
Total comprehensive profit (loss) for the period		**10,395,355**	**(851,881)**
Basic profit (loss) per share	**23**	0.02	(0.002)
Diluted profit (loss) per share	**23**	0.02	(0.002)

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	31 December 2023 $	31 December 2022 $
ASSETS			
Current assets			
Cash and cash equivalents	**11**	56,696,346	10,143,861
Trade and other receivables	**12**	8,944,504	8,316,648
Income tax receivable		348,994	-
Inventories	**13**	18,579,718	3,733,416
Other investments	**14**	75,000	75,000
Total current assets		**84,644,562**	**22,268,925**
Non-current assets			
Deferred tax asset	**10**	5,362,337	-
Plant, equipment and intangible assets	**15**	4,001,670	2,436,271
Right-of-use assets	**16**	1,925,640	458,956
Other investments	**14**	1,117,696	42,900
Total non-current assets		**12,407,343**	**2,938,127**
Total assets		**97,051,905**	**25,207,052**
LIABILITIES			
Current liabilities			
Trade payables		3,488,243	564,231
Employee provisions	**17**	591,580	427,235
Income tax payable		370,430	-
Other liabilities	**18**	15,324,244	4,555,326
Lease liabilities	**19**	451,435	526,045
Borrowings	**20**	-	70,052
Total current liabilities		**20,225,932**	**6,142,889**
Non-current liabilities			
Employee provisions	**17**	140,711	64,760
Lease liabilities	**19**	2,173,969	-
Total non-current liabilities		**2,314,680**	**64,760**
Total liabilities		**22,540,612**	**6,207,649**
Net assets		**74,511,293**	**18,999,403**
EQUITY			
Contributed equity	**21**	80,377,638	40,535,156
Reserves		5,473,844	5,088,141
Accumulated losses		(11,340,189)	(26,623,894)
Total equity		**74,511,293**	**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 2022	**36,983,156**	**5,175,003**	**124,208**	**(26,698,964)**	**15,583,403**
Transfer from option reserve to accumulated losses	-	(1,024,371)	-	1,024,371	-
Transactions with owners in their capacity as owners:					
Net share-based payments movement	-	715,881	-	-	715,881
Equity transaction costs	3,552,000	-	-	-	3,552,000
	3,552,000	715,881	-	-	4,267,881
Exchange difference on translation of foreign operations	-	-	97,420	-	97,420
Loss for the period	-	-	-	(949,301)	(949,301)
Total comprehensive loss for the period	-	-	97,420	(949,301)	(851,881)
Balance at 31 December 2022	**40,535,156**	**4,866,513**	**221,628**	**(26,623,894)**	**18,999,403**
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	-	(5,949,318)	-	5,949,318	-
Transactions with owners in their capacity as owners:					
Net share-based payments movement	-	5,274,053	-	-	5,274,053
Repayment of options by exercise of loans	1,700,000	-	-	-	1,700,000
Contributions of equity, net of transaction costs	38,142,482	-	-	-	38,142,482
	39,842,482	5,274,053	-	-	45,116,535
Exchange difference on translation of foreign operations	-	-	1,060,968	-	1,060,968
Profit for the period	-	-	-	9,334,387	9,334,387
Total comprehensive profit for the period	-	-	1,060,968	9,334,387	10,395,355
Balance at 31 December 2023	**80,377,638**	**4,191,248**	**1,282,596**	**(11,340,189)**	**74,511,293**

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

Consolidated Statement of Cash Flows

	Note	31 December 2023 $	31 December 2022 $
Cash flows from operating activities			
Receipts from customers		70,906,059	13,533,039
Payments to suppliers and employees		(62,284,838)	(17,465,446)
Other receipts		15,000	75,548
Research and Development Tax and other incentives received		2,545,818	2,090,914
Income tax paid		(1,699,563)	-
Net cash flows from (used in) operating activities	**31**	**9,482,476**	**(1,765,945)**
Cash flows from investing activities			
Purchase of plant and equipment		(1,733,318)	(832,175)
Payments for term deposits greater than 3 months		(1,192,696)	-
Interest income on cash deposits		974,330	19,097
Net cash flows used in investing activities		**(1,951,684)**	**(813,078)**
Cash flows from financing activities			
Proceeds from share and option issue		41,941,563	3,700,000
Borrowings transaction costs		(32,148)	-
Payments for lease liabilities		(552,577)	(641,231)
Share issue transaction costs		(2,247,081)	-
Net cash flows from financing activities		**39,109,757**	**3,058,769**
Cash and cash equivalents at beginning of period		**10,143,861**	**9,419,235**
Net increase in cash and cash equivalents		46,640,549	479,746
Exchange rate adjustments to balances held in foreign currencies		(88,064)	244,880
Cash and cash equivalents at the end of the year	**11**	**56,696,346**	**10,143,861**

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

Notes to the Financial Statements

Corporate Information

The consolidated financial report of DroneShield Limited ("the Company") and its controlled entities ("DroneShield" or "the Group") for the year ended 31 December 2023 was authorised for issue in accordance with a resolution of the Directors on 28 February 2024.

DroneShield Limited is a company incorporated in Australia, limited by shares which are publicly traded on the ASX.

The principal activity of the Company is the development, commercialisation and sales of hardware and software technology for drone detection and security.

Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards are Australian Accounting Standards ("AAS"). Compliance with AAS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

1. Summary of Material Accounting Policies

(a) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost as explained in the accounting policies below.

The consolidated financial statements are presented in Australian dollars ("AUD"), unless otherwise noted, which is also the functional currency of the Company. The material accounting policies are set out below.

(b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. subsidiaries). Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies (if any) are eliminated. Accounting policies of all companies in the Group are consistent.

(c) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into AUD at the average rate over the reporting period. Exchange differences on consolidation are charged or credited to other comprehensive income and recognised in the foreign currency translation reserve in equity.

(d) Revenue recognition

The Group recognises revenue from the following major sources:

- Sale of hardware
- Subscription services
- Services

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer.

Notes to the Financial Statements *continued*

Sale of hardware

The Group sells hardware to distributors and directly to customers. Sales-related warranties associated with hardware can be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

For sales of hardware to distributors, revenue is recognised when control of the hardware has transferred, being when the hardware has been shipped to the distributor's specified location (delivery) and collected from Customs by the distributor. Following delivery, the distributor has full discretion over the manner of distribution and price to sell the hardware, has the primary responsibility when on-selling the goods and where there is a risk of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the hardware is delivered to the distributor as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Contracts with customers have a variable sales element, dependent on volume sold. Currently, revenue from sales is fixed with no variable consideration. Contracts do not include financing components.

For sales directly to customers, revenue is recognised when control of the hardware has transferred to the customer, being at the point the hardware is delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specified location. A receivable is recognised by the Group when the hardware is delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

As shipping income is directly related to the sale of hardware, it is not seen as a separate performance obligation and is recognised as and when the related hardware sale is recognised.

When the customer or distributor initially places the order, the customer or distributor is invoiced and the transaction price of the invoice at that point is recognised by the Group as deferred revenue, until control of the hardware has transferred to the customer or distributor and revenue is recognised.

Outside of warranties, customers do not have the right to return hardware sold therefore no "right to returned goods asset" is recognised.

Subscription services

The Group provides a subscription service for software updates. Such services are recognised as a performance obligation satisfied over time.

The transaction price allocated to these services is recognised as deferred revenue at the time of the initial sales transaction and is released on a straight-line basis over the period of service.

Services

The Group provides services for research and training. Such services are recognised as a performance obligation satisfied over time.

The transaction price allocated to these services is recognised as deferred revenue at the time of the initial sales transaction and is released on a straight-line basis over the period of service.

Interest income

Interest income and expenses are reported on an accrual basis using the effective interest method.

Government grant income

Income from government grants is recognised at their fair value in profit and loss when there is reasonable assurance that the grant will be received, and the Group will comply with attached conditions.

Notes to the Financial Statements *continued*

(e) Income tax

The income tax expense/ (benefit) for the year comprises current income tax expense/ (benefit) and deferred tax expense/ (benefit).

Current tax and deferred tax are recognised as an expense/ (benefit) except to the extent that they relate to a business combination or are recognised directly in equity or other comprehensive income. Current tax liabilities/ (assets) are therefore measured at the amounts expected to be paid to/ (received from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax assets and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/ (benefit) is recognised in equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax liabilities/ (assets) are calculated at the tax rates that are expected to apply to the period when the liability is settled (asset is realised), and their measurement also reflects the manner in which management expects to settle the carrying amount of the related liability/ (recover the assets).

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Companies within the Group are entitled to claim special tax deductions in relation to qualifying expenditure under the Research and Development Tax Incentive regime. The Group accounts for these allowances as tax credits.

(f) Goods and services and other value-added taxes ("GST")

Revenue, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the taxation authority, in which case it is recognised as part of the acquisition cost of an asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with terms of less than three months, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements *continued*

(h) Trade and other receivables

Trade and other receivables are stated at their cost less an allowance for impairment of receivables. These receivables are unsecured.

Payment for hardware sales and subscription services are due from the customer as per the terms specified in the contract. Contracts do not include financing components.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2023 or 1 January 2024 respectively and the corresponding historical credit losses experienced within this period.

(i) Trade and other payables

Trade and other payables are liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. These amounts are unsecured and generally payable within 30 days of recognition.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the average cost method. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(k) Leases

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the Group will recognise a lease expense on a straight-line basis.

Notes to the Financial Statements *continued*

(l) Employee benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months, are recognised in other payables. Annual leave is recognised in provisions and is measured using the remuneration rate expected to apply at the time of settlement.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Post-employment benefits

The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and recognises the expense as they become payable.

(m) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote, in which case no liability is disclosed.

(n) Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity proceeds net of any income tax benefit.

(o) Plant and equipment

Plant and equipment (including fittings and furniture) are initially recognised at acquisition cost.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of plant and equipment. The following useful lives are applied:

Office equipment	2 – 5 years
Plant & equipment	2 – 5 years
Demonstration equipment	2 years

Depreciation will commence for self-constructed assets once the asset is available for use.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

(p) Intangible assets

Intangible assets relate to purchased computer software. Amortisation is recognised on a straight-line basis over an estimated useful economic life of 5 years. The estimated useful economic life is reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Financial Statements *continued*

(q) Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period.

Dilutive earnings per share is computed by dividing net earnings by the dilutive weighted average number of ordinary shares assuming the conversion of all dilutive potential ordinary shares.

(r) Research and development

Research is the original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. Development is the application of research findings to a plan or design for the production of new or substantially improved processes or products prior to the commencement of commercial production. Research costs are expensed as they are incurred.

(s) Share-based payments

Share based compensation benefits are provided to employees via an Employee Option Plan. Information in relation to this plan is set out in Note 9.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(t) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely dependent of the cash inflows from other assets or other groups of assets (cash generating units).

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the CEO.

(v) Comparative disclosures

Where appropriate, comparative disclosures have been reclassified/amended to be consistent with the current year's presentation.

(w) 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 has been no material impact on the Group on the adoption of these new standards.

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*

2. Critical accounting judgements, estimates and assumptions

In the application of the Group's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions in the preparation of the financial statements about matters that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to items (refer to the respective notes) within the next financial year are discussed below.

Share based payments

The Group measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liability within the next annual reporting period but may impact profit or loss and equity. Details of the key assumptions used are set out in Note 9.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Demonstration Units

Management reviews its estimate of the useful lives of demonstration assets at each reporting date, based on the expected utility of these assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain items.

Leases

Management estimates the Group's incremental borrowing rate which is used as the discount rate to calculate the present value of the lease payments that are not paid at the commencement date.

Judgement is also applied by management to determine the lease term for some lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Deferred tax assets

The Group recognises deferred tax assets on carried forward tax losses and deductible temporary differences to the extent there are sufficient estimated future taxable profits against which the tax losses and deductible temporary differences can be utilised.

Notes to the Financial Statements *continued*

	31 December 2023 $	31 December 2022 $
3. Revenue		
Hardware sales	47,271,071	14,452,915
Services revenue	4,090,255	1,529,857
Shipping revenue	1,317,483	488,526
Subscription revenue	1,393,796	331,232
Warranty revenue	16,323	4,193
Total revenue from sales	**54,088,928**	**16,806,723**

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 29).

	31 December 2023 $	31 December 2022 $
Timing of revenue recognition		
At a point in time		
Hardware sales including shipping income		
direct sales	39,236,604	7,938,000
distributors	9,351,950	7,003,441
Over time		
Subscription services		
direct sales	988,463	270,280
distributors	405,333	60,952
Services revenue		
direct sales	4,071,021	1,464,750
distributors	19,234	65,107
Warranty revenue		
direct sales	16,323	-
distributors	-	4,193
Total revenue from sales	**54,088,928**	**16,806,723**
Other revenue		
Interest revenue	974,330	19,098
Sublease revenue	15,000	60,260
Total other revenue	**989,330**	**79,358**
Total revenue	**55,078,258**	**16,886,081**

4. Other income

	31 December 2023 $	31 December 2022 $
Awards and incentives revenue	99,622	111,382
Net foreign exchange gains (losses)	(486,966)	160,872
Total other gains (losses)	**(387,344)**	**272,254**

Notes to the Financial Statements *continued*

	31 December 2023 $	31 December 2022 $
5. Product development expense		
Consultants	858,778	490,565
Other	756,631	264,782
Materials	874,313	837,394
Payroll	8,163,509	4,764,823
Shipping	292,127	97,893
Travel, accommodation and meals	116,463	160,647
Total product development expense	**11,061,821**	**6,616,104**
6. Sales and customer service expense		
Marketing and advertising	289,740	76,447
Other	948,080	273,382
Materials	119,118	105,615
Payroll	9,493,768	2,325,673
Shipping	426,639	196,730
Travel, accommodation and entertainment	385,266	324,182
Total sales and customer service expense	**11,662,611**	**3,302,029**
7. Corporate and support expense		
Legal	285,883	159,645
Office costs and communication	1,257,985	681,482
Other	703,305	774,438
Payroll	3,119,747	1,434,754
Professional expenses	1,807,548	563,294
Travel, accommodation and entertainment	131,212	75,776
Total corporate and support expense	**7,305,680**	**3,689,389**
8. Corporate governance expense		
ASX fees	185,849	93,953
Audit	115,954	77,365
Board expenses	203,998	212,993
Insurance	334,445	237,801
Other	184,517	94,970
Professional expenses	58,478	70,648
Total corporate governance expense	**1,083,241**	**787,730**

Notes to the Financial Statements *continued*

9. Options issued

During the year ended 31 December 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 December 2023.

Options Issued 31 December 2023	Class AC Options	Class AD Options	Class AE Options	Performance[1] Options	Other Options[2]	Total option expense for the year
No of new options	3,140,000	100,000	300,000	700,000		
Expiry (years)	3.01	2.00	2.96	4.03		
Exercise price ($)	0.35	0.30	0.40	0		
Average vesting period (years)	0.00	0.00	0.00	4.03		
Underlying volatility	54.38%	54.38%	54.38%	n/a		
Average risk-free interest rate	2.99%	4.07%	4.19%	n/a		
Average calculated fair value of each option ($)	0.1037	0.0724	0.1041	0.3004		
Total expense recorded for the period ended 31 December 2023 ($)	325,614	7,236	31,218	210,250	4,699,735	5,274,053

[1] The Performance Options have no exercise price and were subject to the following vesting conditions being satisfied: DroneShield achieving $50,000,000 of revenue or customer cash receipts; or automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction. 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. The vesting criteria was satisfied during 2023 and the total vesting expense was recognised.

[2] Vesting expense for Performance Options issued in 2022. Refer to 2022 Annual Report for details of options issued in prior periods.

Notes to the Financial Statements *continued*

9. Options issued *(continued)*

During the year ended 31 December 2022, a number of options were issued to Directors, management and other employees of the Group. In addition to this, a number of options did not meet the vesting conditions during the period. Using the Black-Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and December 2022.

Options Issued 31 December 2022	Class X Options	Class Y Options	Class Z Options	Class AA Options	Class AB Options	Performance [3] Options	Other Options [4]	Total option expense for the year [5]
No of new options	14,650,000	850,000	100,000	600,000	500,000	25,000,000		
Expiry (years)	2.01	5.00	0.25	2.98	3.01	4.87		
Exercise price ($)	0.25	0.25	0.20	0.30	0.20	-		
Average vesting period (years)	0.00	0.00	0.00	0.00	0.00	4.87		
Underlying volatility	54.4%	54.4%	54.4%	54.4%	54.4%	n/a		
Average risk-free interest rate	0.72%	1.54%	3.29%	3.26%	3.01%	n/a		
Average calculated fair value of each option ($)	0.0349	0.0719	0.0107	0.1059	0.1900	0.2188		
Total expense recorded for the period ended 31 December 2022 ($)	511,224	61,157	1,067	63,561	95,000	675,265	(691,393)	715,881

[3] The Performance Options are subject to the following vesting conditions being satisfied: DroneShield achieving $50,000,000 of revenue or customer cash receipts; or automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction. 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 the sales pipeline and existing orders, management estimate that the options will vest within the expiry period. At this stage, the vesting period is assumed to be five years, which will be reviewed against updated pipeline and forecasts each six months.

[4] $691,393 comprises of a credit for Tranche 2 Performance Options (issued in 2019) and a vesting expense for Class Q options (issued in 2019 and 2020). The expense recognised in prior periods for Tranche 2 Performance Options was credited due to the vesting conditions not being met within 3 years from the date of issue of the Tranche 2 Performance Options. Refer to 2021 Annual Report for details of options issued in prior periods.

[5] During the 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*

	31 December 2023 $	31 December 2022 $
10. Income taxes relating to continuing operations		
Total tax benefit comprises:		
Current tax expense	5,218,810	-
Deferred tax benefit	(5,362,337)	-
Research and Development Tax Incentive	(6,024,602)	(1,979,531)
Total tax benefit comprises:	**(6,168,129)**	**(1,979,531)**
Factors affecting income tax benefit for the year		
Income tax expense differs to the standard rate of corporation tax as follows:		
Profit (loss) before income tax	3,166,258	(2,928,832)
Tax (loss) on profit at Australian tax rate of 30% (2022: 25%)	949,878	(732,208)
Effect of difference in tax rates	1,229,923	-
Recognition of previously unrecognised deferred tax assets	(10,124,799)	-
Research and development tax incentive	(6,024,602)	(1,979,531)
Expenditure not allowable for income tax purposes	6,342,334	178,970
Foreign exchange adjustments	(171,710)	-
Amounts unprovided in prior year	139,499	-
Tax on unremitted foreign earnings	1,491,348	-
Effect of unused tax losses not recognised as deferred tax assets	-	553,238
Income tax benefit	**(6,168,129)**	**(1,979,531)**
Applicable statutory income tax rates are as follows:		
- Australia	**30%**	**25%**
- USA (Federal and State)	**24%**	**24%**
Deferred tax asset comprises of temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	264,865	-
Right of use asset	(133,883)	-
Unearned Income	886,686	-
Lease liability	523,593	-
R&D expenses	2,372,849	-
Losses carried forward	1,394,413	-
Other temporary differences	53,814	-
Total deferred tax asset	**5,362,337**	**-**

Notes to the Financial Statements *continued*

10. Income taxes relating to continuing operations *(continued)*

	31 December 2023 $	31 December 2022 $
Movements:		
Opening balance	-	-
Credited to profit or loss	5,362,337	-
Total deferred tax asset	**5,362,337**	**-**

11. Cash and cash equivalents

	31 December 2023 $	31 December 2022 $
Cash at bank and in hand	35,866,955	9,290,829
Short-term deposits	20,829,391	853,032
Total cash and cash equivalents	**56,696,346**	**10,143,861**

12. Trade and other receivables

	31 December 2023 $	31 December 2022 $
Trade receivables	1,970,771	6,625,276
GST receivable	268,167	222,429
Deferred revenue (see Note 18)	86,070	31,478
Prepayments	6,619,496	1,437,465
Total trade and other receivables	**8,944,504**	**8,316,648**

Age of receivables that are past due but not impaired.

	31 December 2023 $	31 December 2022 $
>120 days	37,138	9,559

13. Inventories

	31 December 2023 $	31 December 2022 $
Raw materials	10,532,696	2,403,734
Finished goods	8,047,022	1,329,682
Total Inventory	**18,579,718**	**3,733,416**

14. Other investments

	31 December 2023 $	31 December 2022 $
Current	75,000	75,000
- *Term Deposits*		
Non-current		
- *Term Deposits*	1,117,696	42,900
Total Other investments	**1,192,696**	**117,900**

Notes to the Financial Statements *continued*

15. Plant, equipment and intangible assets

	Development equipment $	Demonstration equipment $	Office equipment $	Plant & equipment $	Vehicles and trailers $	Intangible assets (software) $	Leasehold Improvements $	Total $
Balance at 1 Jan 22	**97,363**	**291,877**	**136,174**	**291,799**	**173,036**	**38,222**	**-**	**1,028,471**
Additions	740,564	-	95,483	7,384	-	4,247	-	847,678
Disposals	-	-	(11,542)	-	(44,463)	-	-	(56,005)
Transfer from (to) inventory	(187,962)	1,387,807	-	-	-	-	-	1,199,845
Transfer from (to) P&L	(105,983)	(116,030)	-	-	-	-	-	(222,013)
Depreciation / amortisation	-	(128,495)	(106,559)	(101,597)	(22,367)	(13,674)	-	(372,692)
Exchange differences	-	4,273	860	-	5,854	-	-	10,987
Balance at 31 Dec 22	**543,982**	**1,439,432**	**114,416**	**197,586**	**112,060**	**28,795**	**-**	**2,436,271**
Additions	445,487	31,993	240,443	796,833	-	19,657	913,852	2,448,265
Disposals	(306,909)	(70,823)	-	(5,047)	-	-	-	(382,779)
Transfer from (to) inventory	(159,193)	475,945	-	117,769	-	-	-	434,521
Transfer from (to) P&L	(132,540)	(338,371)	58,371	467,675	-	-	-	55,135
Depreciation / amortisation	-	(683,501)	(131,516)	(140,211)	(20,181)	(14,579)	-	(989,988)
Exchange differences	-	69	17	-	159	-	-	245
Balance at 31 Dec 23	**390,827**	**854,744**	**281,731**	**1,434,605**	**92,038**	**33,873**	**913,852**	**4,001,670**

Notes to the Financial Statements *continued*

15. Plant, equipment and intangible assets (*continued)*

	Cost $	Accumulated Depreciation $	Carrying Value $
Development equipment	390,827	-	390,827
Demonstration equipment	1,743,733	(888,989)	854,744
Office equipment	585,412	(303,681)	281,731
Plant & equipment	1,524,727	(90,122)	1,434,605
Vehicles and trailers	143,093	(51,055)	92,038
Intangible assets (software)	50,293	(16,420)	33,873
Leasehold improvements	913,852	-	913,852
Balance at 31 December 2023	**5,351,937**	**(1,350,267)**	**4,001,670**
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**

On 1 July 2023, fixed assets with a carrying value of $683,048 was sold from DroneShield Limited to DroneShield Group Pty Ltd. The carrying value of the assets is recognised as additions in DroneShield Group Pty Ltd and will be depreciated over the remaining useful life.

Notes to the Financial Statements *continued*

	31 December 2023 $	31 December 2022 $

16. Right-of-use asset

	31 December 2023 $	31 December 2022 $
Balance at 1 January	458,956	**-**
Additions	1,999,541	949,790
Depreciation	(532,857)	(557,465)
Reversal of Impairment	-	66,631
Balance at 31 December	**1,925,640**	**458,956**

The Group leases various assets including offices and storage units. The contractual lease terms range from 1 to 5 years. The total cash outflow for leases, including short-term leases was $704,833 (2022: $641,231). The maturity analysis of lease liabilities is presented in Note 19.

Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	532,857	557,465
Expense relating to short-term leases	69,967	22,967
Interest expense on lease liabilities	26,787	56,707
Reversal of impairment on right-of-use assets	-	(66,631)

17. Employee provisions

Current		
- *Annual leave*	591,580	427,235
Non-current		
- *Long-service leave*	140,711	64,760
Total provisions	**732,291**	**491,995**

18. Other liabilities

Accrued expenses	777,223	478,285
Deferred Revenue		
- *Hardware sales*	3,653,780	1,606,250
- *Subscription services*	6,088,498	1,664,521
- *Services*	55,839	-
- *Shipping*	58,668	-
- *Other revenue*	4,690,236	780,970
Sublease bonds	-	25,300
Total other liabilities	**15,324,244**	**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 31 December 2023.

Notes to the Financial Statements *continued*

	31 December 2023 $	31 December 2022 $
19. Lease liabilities		
Amounts due for settlement within 1 year	451,435	526,045
Amounts due for settlement after 1 year	2,173,969	-
Total lease liabilities	**2,625,404**	**526,045**

These liabilities were measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 6.07%.

	31 December 2023 $	31 December 2022 $
Future lease payments		
Amounts due for settlement within 1 year	545,054	541,619
Amounts due for settlement within 2 to 5 years	2,453,724	-
Amounts due for settlement over 5 years	250,483	-
Total future payments	**3,249,261**	**541,619**

20. Borrowings

	31 December 2023 $	31 December 2022 $
Unsecured borrowing at amortised cost		
Insurance Premium Finance	-	70,052
Total borrowings	**-**	**70,052**
Amount due for settlement within 1 year	-	70,052
Amount due for settlement after 1 year	-	-

Notes to the Financial Statements *continued*

21. Contributed equity

	No. of shares (Note a)	$
Balance at beginning of period (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)	27,299,168	-
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	-	1,700,000
Transaction costs in relation to shares issued from share placement (Note f)	-	(2,099,076)
Balance at end of period (31 December 2023)	**611,453,611**	**80,377,638**

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 year, 2,799,168 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 non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates.
24,500,000 options were performance options, which vested during the year and were exercised at a zero-exercise price.

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.

22. 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	27,299,168	(27,299,168)
Options lapsed	-	(1,225,833)
Options issued to Management and Employees	-	4,240,000
Closing balance at 31 December 2023	**611,453,611**	**11,470,000**

Notes to the Financial Statements *continued*

	31 December 2023 $	31 December 2022 $

23. Earnings (loss) per share

	31 December 2023 $	31 December 2022 $
(a) Basic earnings (loss) per share		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company	0.02	(0.002)
(b) Dilutive earnings per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company	0.02	(0.002)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings (loss) per share	464,029,449	429,980,471
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings (loss) per share	475,499,449	429,980,471

24. Key Management Personnel disclosures and related party transactions

(a) KMP Compensation

	31 December 2023 $	31 December 2022 $
Movement in employee provisions	(21,193)	(10,022)
Performance Bonus	495,000	-
Post-employment benefits	26,346	24,430
Salaries and fees	490,000	456,188
Share-based payments	3,248,669	321,882
Total KMP compensation	**4,238,822**	**792,478**

Detailed remuneration disclosures are provided in the Remuneration Report on pages 18-24.

(b) Other transactions with related parties

There were no other related party transactions during the financial year.

Notes to the Financial Statements *continued*

25. Parent entity financial information

The individual financial statements for the accounting parent entity, DroneShield Limited, show the following aggregate amounts:

	31 December 2023 $	31 December 2022 $
Statement of financial Position		
Current assets	48,940,205	5,126,447
Non-current assets	2,727,303	2,624,992
Total assets	51,667,508	7,751,439
Current liabilities	2,912,997	2,370,837
Non-current liabilities	102,172	64,760
Total liabilities	3,015,169	2,435,597
Net assets	48,652,339	5,315,842
Share capital	79,055,091	39,212,609
Reserves	4,201,656	4,866,513
Accumulated losses	(34,604,408)	(38,763,280)
Total equity	,48,652,339	5,315,842
Loss for the year	**(1,780,039)**	**(8,960,323)**
Other comprehensive loss	**-**	-
Total comprehensive loss	**(1,780,039)**	**(8,960,323)**

At 31 December 2023, contractual agreements existed, for the parent entity, to pay suppliers $1,416,142 (2022: $2,354,271) for the manufacturing of inventory to deliver on orders received.

There were no contingent liabilities for the parent entity as at 31 December 2023 and 31 December 2022.

DroneShield Group Pty Ltd was established in the current year. DroneShield LLC, DroneShield Corporation Pty Ltd and DroneShield Group Pty Ltd are legal subsidiaries of DroneShield Limited and are 100% owned by DroneShield Limited.

Notes to the Financial Statements *continued*

26. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-entity loans.

The Directors' overall risk management strategy seeks to assist the Group in meeting its financial targets whilst minimising potential adverse effects on financial performance.

Credit risk

With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents, trade and other receivables and other investments, the Company's exposure to credit risk arises in the form of default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Management has considered impairment, with none noted at 31 December 2023.

Since the Company trades only with recognised parties, there is no requirement for collateral security.

The maximum exposure to credit risk at the balance date is as follows:	31 December 2023 $	31 December 2022 $
Cash and cash equivalents	56,696,346	10,143,861
Other investments	1,192,696	117,900
Trade and other receivables	8,944,504	6,879,183

Liquidity risk

The Company's policy is to maintain a comfortable level of liquidity through the continual monitoring of actual and forecast cash flows and the maturity profile of term deposits, and the raising of additional capital as required.

Foreign exchange risk

The Company operates from Australia and the U.S., and accordingly transactions currently occur in a mix of AUD, GBP, EUR and USD. Cash and cash equivalents used to fund working capital are held in USD and AUD bank accounts.

Transactional currency exposures arise from sales or purchases in currencies other than the Company's functional currency. For example, the Company is exposed to transactional exposure in respect of non-functional currencies on foreign currency denominated sales contracts entered into by DroneShield Limited in Australia.

Additionally, the Company is exposed to foreign currency exchange risk when capital is raised in AUD and transferred to the U.S. entity. The Company closely monitors foreign currency movements at such times but does not use hedging instruments to manage such risk.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are translated into AUD at the closing rate.

	31 December 2023 $	31 December 2022 $
Cash	21,394,339	4,839,648
Trade and other receivables	2,487,482	6,614,195
Total financial assets	**23,881,821**	**11,453,843**
Other liabilities	10,826,522	(186,060)
Trade and other payables	2,776,971	(225,618)
Total Financial liabilities	**13,603,493**	**(411,678)**

Notes to the Financial Statements *continued*

26. Financial risk management *(continued)*

Foreign exchange risk

The following table, expressed in AUD, indicates DroneShield's sensitivity to movements in exchange rates on the profit or loss, based on the AUD strengthening/ weakening against the USD, GBP and EUR by 10%:

	31 December 2023 $	31 December 2022 $
+ 10%	(605,899)	(1,007,918)
- 10%	1,549,107	1,143,766

Exposure to foreign currency varies during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial liabilities.

Contractual maturities of financial liabilities	Less than 6 months $	6-12 Months $	Between 1 and 2 years $	Between 2 and 5 years $	Total contractual cash flows $	Carrying amount (assets)/ liabilities $
As at 31 December 2022						
Accrued expenses	478,285	-	-	-	478,285	478,285
Borrowings	60,727	9,325	-	-	70,052	70,052
Lease liabilities	300,903	225,142	-	-	526,045	526,045
Trade and other payables	564,231	-	-	-	564,231	564,231
Total	**1,404,146**	**234,467**	**-**	**-**	**1,638,613**	**1,638,613**
As at 31 December 2023						
Accrued expenses	777,223	-	-	-	777,223	777,223
Lease liabilities	143,406	308,029	653,433	1,520,536	2,625,404	2,625,404
Trade and other payables	3,488,243	-	-	-	3,488,243	3,488,243
Total	**4,408,872**	**308,029**	**653,433**	**1,520,536**	**6,890,870**	**6,890,870**

27. Contingent liabilities

As at 31 December 2023 there were no contingent liabilities.

28. Commitments

At 31 December 2023, contractual agreements existed to pay suppliers $27,563,283 for the manufacturing of inventory to deliver on orders received (2022: $2,354,271).

Notes to the Financial Statements *continued*

29. Segment information

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

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

The following tables present certain information regarding geographical segments for the years ended 31 December 2023 and 31 December 2022.

Segment performance **31 December 2023**	**USA** **$**	**Australia** **$**	**Elimination** **$**	**Total** **$**
Hardware sales including shipping income				
- *direct sales*	31,191,810	8,044,794	-	**39,236,604**
- *distributors*	4,759,512	4,592,438	-	**9,351,950**
Subscription services				
- *direct sales*	904,742	83,721	-	**988,463**
- *distributors*	10,011	395,322	-	**405,333**
Services revenue				
- *direct sales*	91,067	3,979,954	-	**4,071,021**
- *distributors*	9,031	10,203	-	**19,234**
Warranty revenue				
- *direct sales*	16,323	-	-	**16,323**
- *distributors*	-	-	-	**-**
Total revenue from sales	**36,982,496**	**17,106,432**	**-**	**54,088,928**
Other revenue	-	11,430,168	(10,440,838)	**989,330**
Total revenue	**36,982,496**	**28,536,600**	**(10,440,838)**	**55,078,258**
Depreciation	(314,134)	(1,208,380)	-	**(1,522,514)**
Profit after income tax expense	6,070,409	3,263,978	-	**9,334,387**
Assets and liabilities				
Segment assets	18,111,621	113,589,070	(34,648,786)	97,051,905
Segment liabilities	(11,314,303)	(44,735,947)	33,509,638	(22,540,612)

Notes to the Financial Statements *continued*

29. Segment information *(continued)*

Segment performance **31 December 2022**	**USA** **$**	**Australia** **$**	**Elimination** **$**	**Total** **$**
Hardware sales including shipping income				
- *direct sales*	7,180,891	757,109	-	**7,938,000**
- *distributors*	1,732,536	5,270,905	-	**7,003,441**
Subscription services				
- *direct sales*	152,759	117,521	-	**270,280**
- *distributors*	8,783	52,169	-	**60,952**
Services revenue				
- *direct sales*	71,706	1,393,044	-	**1,464,750**
- *distributors*	-	65,107	-	**65,107**
Warranty revenue				
- *distributors*	-	4,193	-	**4,193**
Total revenue from sales	**9,146,675**	**7,660,048**	**-**	**16,806,723**
Other revenue	-	79,358	-	**79,358**
Total revenue	**9,146,675**	**7,739,406**	**-**	**16,886,081**
Depreciation	(268,046)	(647,655)	-	**(915,701)**
Profit (loss) after income tax expense	3,322,828	(4,272,129)	-	**(949,301)**
Assets and liabilities				
Segment assets	6,539,065	27,613,170	(8,945,183)	**25,207,052**
Segment liabilities	(6,873,124)	(8,279,708)	8,945,183	**(6,207,649)**

30. Remuneration of auditor

During the year, the following fees were paid or payable for services provided by the auditor, HLB Mann Judd Assurance (NSW) Pty Limited (HLB) and its related network firms:

	31 December 2023 **$**	**31 December 2022** **$**
HLB		
Audit and assurance services	89,710	76,353
Taxation and other services	50,416	14,036
Total services provided by HLB	**140,126**	**90,389**
Related network firms		
Taxation, Information technology and other services	433,768	231,489
Total services provided by related network firms	**433,768**	**231,489**

Notes to the Financial Statements *continued*

31. Reconciliation from profit after income tax to net cash outflow from operating activities

	31 December 2023 $	31 December 2022 $
Operating profit (loss) for the year after tax	**9,334,387**	**(949,301)**
Depreciation	1,522,845	915,701
Effects of foreign currency translation	443,652	(153,168)
Intercompany loan	-	6,886
Interest income on cash deposits	(974,330)	(19,098)
Inventory impairment expense	162,146	(1,315)
Interest paid	32,148	-
Loss on disposal of fixed asset	5,047	56,006
Right-of-use asset impairment reversal	-	(66,631)
Share option expense	5,274,053	715,881
Transfers from fixed assets	634,414	222,797
Change in operating assets and liabilities		
Increase in trade and other receivables	(627,856)	(7,557,316)
Increase in employee provisions	240,296	18,486
Increase in deferred tax assets	(5,362,337)	-
Decrease/(Increase) in inventory	(14,846,302)	1,982,678
Increase in income tax receivable	(348,994)	-
Increase in trade and other payables	2,924,011	85,849
(Decrease)/increase in borrowings	(70,052)	13,468
Increase in other liabilities	10,768,918	2,963,132
Increase in income tax payable	370,430	-
Net cash flows from (used in) operating activities	**9,482,476**	**(1,765,945)**

32. Events after the reporting date

Subsequent to 31 December 2023, the following occurred;

- In January 2024, the Company held a General Meeting in which shareholder approval was obtained for the award of Performance Options to Directors.
- Subsequent to the General Meeting, 44.9 million Performance Options and 5.85 million options with an exercise price of $0.45 were issued to the Directors and key staff.
- In January 2024, 700,000 shares were issued to key staff due to vesting of Performance Options.
- Also in January 2024, the Company launched DroneSentry-X2 Mk2 Expeditionary Fixed Site Kit.
- In February 2024, 519,000 options with an exercise price of $0.76 were issued to key staff.

Directors' Declaration

1. In the opinion of the Directors:

   (a) the consolidated financial statements and notes set out on pages 26 to 54 are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards, 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.

2. The notes to the consolidated financial statements include a statement of compliance with International Financial Reporting Standards.

3. The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the year ended 31 December 2023 required by section 295A of the *Corporations Act 2001*.

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

Peter James
Independent Non-Executive Chairman

Sydney, NSW
28 February 2024

HLB MANN JUDD

Independent Auditor's Report to the Members of DroneShield Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of DroneShield Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 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 year then ended, and notes to the financial statements, including material accounting policy information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group 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* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

hlb.com.au

HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215
Level 5, 10 Shelley Street Sydney NSW 2000 Australia
T: +61 (0)2 9020 4000 **E:** mailbox@hlbnsw.com.au

HLB MANN JUDD

Key Audit Matter	How our audit addressed the key audit matter
Revenue recognition (Note 3)	
The Group recognised total revenue from sales of $54,088,928 during the year ended 31 December 2023 (2022: $16,806,723). We focussed on this area as a key audit matter due to the judgements involved in applying AASB 15 *Revenue from Contracts with Customers.*	Our audit procedures included but were not limited to the following: We reviewed management's revenue recognition accounting policy to assess whether it complied with AASB 15. We reviewed a sample of revenue transactions recorded during the year along with management's assessments and reviewed contracts and other documentation in relation to these to assess whether revenue recognised was in accordance with the requirements of AASB 15. We also reviewed disclosures in the financial statements to assess whether they are in accordance with AASB 15.
Existence and Valuation of inventory (Note 13)	
At 31 December 2023, the Group held inventory with a carrying value of $18,579,718 (2022: $3,733,416). As detailed in note 1 of the financial statements, inventories are valued at the lower of cost and net realisable value. Significant judgement is involved in estimating the net realisable value of inventory as it requires consideration of future sales volumes and prices for specific inventory lines. We focussed on this area as a key audit matter due to the material value of this balance.	Our audit procedures included but were not limited to the following: We attended the year-end stocktake and observed the count procedures and controls. We agreed the physical inventory count records to the accounting inventory listing at year-end. We tested a sample of inventory items to assess whether the carrying value was recorded at lower of cost or net realisable value in accordance with AASB 102 *Inventories*. We reviewed and tested management's assessment of inventory obsolescence. We reviewed the accounting policies adopted by the Group for inventory, and the disclosures in the financial statements to ensure they meet the requirements of accounting standards.
Share Based Payments (Note 9)	
In the current and previous periods, the Company has issued a number of share options to directors and management. As detailed in note 1 of the financial statements, and in accordance with *AASB 2: Share Based Payment*, the fair value of the options at grant date are determined by management, and utilised to account for the share based payment expense and options issued. The key assumptions used in determining the fair value of the options are set out in Note 9 to the financial statements.	Our audit procedures included but were not limited to the following: We reviewed and verified the key terms of the options issued as shared based payments during the year, to the supporting agreements and documentation. We reviewed the fair valuation calculation for the options, with reference to the methodology utilised and the key assumptions adopted in the valuation. We tested the accuracy of the recorded share-based payment expense for the year in the statement of profit or loss and option reserve.

Key Audit Matter	How our audit addressed the key audit matter
We considered this to be a key audit matter due to the complexity and significant management estimation and judgement involved in determining the fair value of the share based payments issued.	We assessed the accuracy of the Group's disclosures of the share based payment arrangement and options on issue in the financial statements with reference to the requirements of accounting standards.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

HLB MANN JUDD

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 24 of the directors' report for the year ended 31 December 2023.

In our opinion, the Remuneration Report of DroneShield Limited for the year ended 31 December 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants

N J Guest
Director

Sydney, NSW
28 February 2024

Shareholder Information

Holdings distribution at 23 February 2024

Holding Ranges	Holders	Total Shares	% Issued Share Capital
1 - 1,000	525	314,570	0.05%
1,001 - 5,000	4,077	11,770,795	1.92%
5,001 - 10,000	2,136	16,900,910	2.76%
10,001 - 100,000	4,367	149,279,648	24.39%
100,000 - over	748	433,887,688	70.88%
Total	**11,853**	**612,153,611**	**100.00%**

The shareholders are entitled to one vote for each share held.

Twenty largest shareholders at 23 February 2024

Position	Holder Name	Shares Held	% Issued Share Capital
1	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT>	59,820,541	9.77%
2	EPIRUS INC	18,500,000	3.02%
3	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	18,206,934	2.97%
4	BETA GAMMA PTY LTD	18,100,000	2.96%
5	CITICORP NOMINEES PTY LIMITED	16,580,731	2.71%
6	MR PAUL JONATHAN SHAW & MRS BEATRICE SHAW	12,707,550	2.08%
7	OLEG VORNIK	10,456,038	1.71%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,394,052	1.53%
9	CARLA BALANCO	9,200,000	1.50%
10	PETER JAMES	6,532,030	1.07%
11	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,497,045	1.06%
12	S R BENNETT PTY LTD <D&S BENNETT PTY LTD SF A/C>	5,338,930	0.87%
13	FINCLEAR PTY LTD <SUPERHERO SECURITIES A/C>	4,398,185	0.72%
14	P & B SHAW FT CB PTY LTD	4,374,775	0.71%
15	BLACKWOOD CONSULTING PTY LTD <ROGER CAMPBELL FAMILY A/C>	4,320,351	0.71%
16	BNP PARIBAS NOMS PTY LTD	3,250,077	0.53%
17	MR FEI LIN	3,227,081	0.53%
18	MR SHENCHEN GU	3,162,289	0.52%
19	MINO BUCCI	2,875,000	0.47%
20	LAWRENCE MARYCHURCH	2,575,000	0.42%
Total		**219,516,609**	**35.86%**
Balance of register		392,637,002	64.14%
Total issued capital		**612,153,611**	**100.00%**

The number of unquoted equity securities on issue as at 31 December 2023 was 11,470,000 held by 32 holders.

282 holders held less than a marketable parcel of DRO securities, based on the closing market price as at 31 December 2023 of $0.37