



DRONESHIELD

Quarterly Report

For the period ending
30 June 2020



Image: DroneShield products ready for customer shipment at the Company's US office

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

DroneShield Ltd (ASX:DRO) ("DroneShield" or the "Company") is pleased to provide the following update on its activities during the three-month period ended 30 June 2020 and its Appendix 4C quarterly cash flow report for the same period.

The quarter's key highlights are as follows.

- ✓ ***Substantial qualitative and quantitative progress***
- ✓ ***Cash inflows from customers and grants were approximately \$2.1 million, a quarterly record***
- ✓ ***First approximately breakeven operating quarter for DroneShield***
- ✓ ***Cash balance has increased relative to the start of the quarter***
- ✓ ***Substantial increase in the U.S. government business - currently delivering first fixed site deployment for detect-and-defeat DroneSentry™ system for the US Department of Defense***
- ✓ ***The Company continues to work towards the execution of a formal contract in relation to the previously announced \$70-\$85 million Middle Eastern bid.¹***
- ✓ ***The Company has won a four-year framework agreement to supply European Union police forces with DroneGun Tactical™***

Financial Performance and Outlook

While the Company was affected by the COVID-19 pandemic, and the pandemic has impacted the Company's ability to conduct customer meetings, demonstrations and product trials, as well as delaying logistics (and consequently, payments for products shipped) and installation approvals, the Company recorded record operating cash receipts of approximately \$2.1 million during the quarter.

Importantly, with the net operating cash outflow of only approximately \$50,000, the Company recorded its first quarter in which its operating cashflows were approximately breakeven.

Additionally, the Company received approximately \$600,000 in non-dilutive funding against its forthcoming 2020 R&D Tax Incentive payment and approximately \$150,000 from the US Government Paycheck Protection Program, bringing the Company's total cash in-flows to approximately \$2.9 million for the quarter. The breakeven operating cashflows, together with this additional non-dilutive funding, resulted in the Company being cash flow positive for the quarter, without an equity fund-raising, for the first time in its history – the Company's cash balance increased by approximately \$500,000 relative to that at the start of the quarter. This cashflow positive quarter was achieved despite a higher spend relating to a build-up of additional inventory in order to make rapid deliveries for future sales. This cashflow positive quarter compares positively to the 31 March 2020 quarter which saw a \$1.9 million net cash outflow.

The Company's order book stands at approximately \$3.4 million, with a high conviction pipeline estimated at over \$85 million², as further described in *High Conviction Pipeline* below. Importantly, at any time, there are a number of additional tenders and procurements processes that DroneShield is participating in, which are not referred to in the High Conviction Pipeline, due to the Company having lesser visibility to the probability of winning the project. One such example was the Company

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

² There is no assurance that this bid will result in a sale.

winning a four-year framework agreement to supply EU Police with DroneGun Tactical™, now estimated as a multi-million-dollar annual opportunity – this opportunity was not referenced in the High Conviction Pipeline in the previous quarters due to the uncertain nature of the outcome of this tender at the time.

In the short-term, in addition to new orders, the Company expects to receive cash inflows in relation to the customer orders already placed, and to meaningfully increase its revenues as the initial disruptions caused by the health crisis pass, and the Company converts its substantial pipeline into new orders.

At the macro level, international tensions continue to rise, driving increases in security and national defence budgets. Australia continues to align with the United States and the Five Eyes intelligence and military community (the US, the UK, Canada, Australia and New Zealand). This has continued to drive demand for DroneShield's products from the Western countries, and their regional allies, who collectively represent the majority of the world's defence and security budgets. Consistent with this trend, during the quarter, a substantial majority of the Company's cash receipts were derived from four of the Five Eye countries.

Importantly, as the Company progresses the larger multi-million dollar opportunities, it continues to rapidly grow its "business-as-usual" customer cash receipts. In the defence and critical infrastructure sectors with their long lead times to orders, combined with a nascent space involving many customers undertaking product evaluations prior to purchase, these Company sales are a testament to the customer acceptance of DroneShield's products as the Company continues to drive closer to "company-making" large customer sale opportunities.



Image: DroneShield product brief to the US Army

DroneShield continues to qualify for grant programs, and has received funding both in Australia and the US during the quarter, with grant applications pending in the UK where DroneShield operates a subsidiary business.



Image: RfPatrol MKII™ units at DroneShield's Sydney manufacturing facility, ready for shipment to the US

Going forward (and following the recently undertaken cost reductions and completion of one-off inventory build), with effect from the current quarter, the Company expects its steady-state quarterly gross cost base to be approximately \$1.2 million, before accounting for any revenues (and grant funding), and any additional costs in relation to products manufactured for future orders (after the Company utilises its current product inventory). Importantly, this cost base includes ongoing R&D work to continue to stay at the cutting edge of customer requirements.

The Company enjoys a healthy gross margin on its products, consistent with the high-tech nature of its offering. DroneShield is also growing its SaaS (software-as-a-service) model, with customers making recurring subscription payments to the Company in relation to threat library updates.

Consequently, DroneShield expects its existing cash balance (approximately \$4 million as at 30 June 2020), to be sufficient to meet its capital requirements, at the very least, for the foreseeable future.

Sales

During the quarter, DroneShield continued to expand the range of its customers and its sales pipeline. The Company currently offers its products in over 100 countries and the diversity of its pipeline is one of its key strengths. Importantly, with a wide distribution network and a history of orders from a variety of customers, DroneShield is not dependent on any one customer or any one existing or potential contract for its success.

The update below does not seek to cover each of the Company's sales opportunities or even each type of the Company's sales opportunities, which are numerous. Rather, it highlights a limited number of near-term themes that are some of the main sales drivers for the Company.

The United States Department of Defense and other U.S. government agencies

The United States government, through a wide variety of its agencies and departments, is the largest counterdrone customer globally. Over an extended period of time, DroneShield has undertaken extensive work on establishing in-roads into the U.S. governmental market. These efforts produced the Company's first meaningful U.S. governmental order (from a marquee and highly sophisticated technological U.S. governmental agency user, in the amount of \$450,000) in

the March quarter. During the June quarter, DroneShield received payment for that order in full. Building on that order, during the quarter, the Company continued extending its penetration of the U.S. governmental market and contracted for, and received the initial deposit in relation to, an order for multiple DroneSentry™ units (with an option for a further purchase) from the U.S. Department of Defense (this order was not the subject of a standalone Company announcement previously).

The Company expects that, following the credibility bestowed on DroneShield's products by these orders from the U.S. Department of Defense and the U.S. governmental agency, DroneShield's products will continue to gain acceptance with the decision-makers and budget allocators within a wide range of the U.S. governmental agencies. The Company anticipates updating the market on tangible wins in this sector during the course of the current quarter.

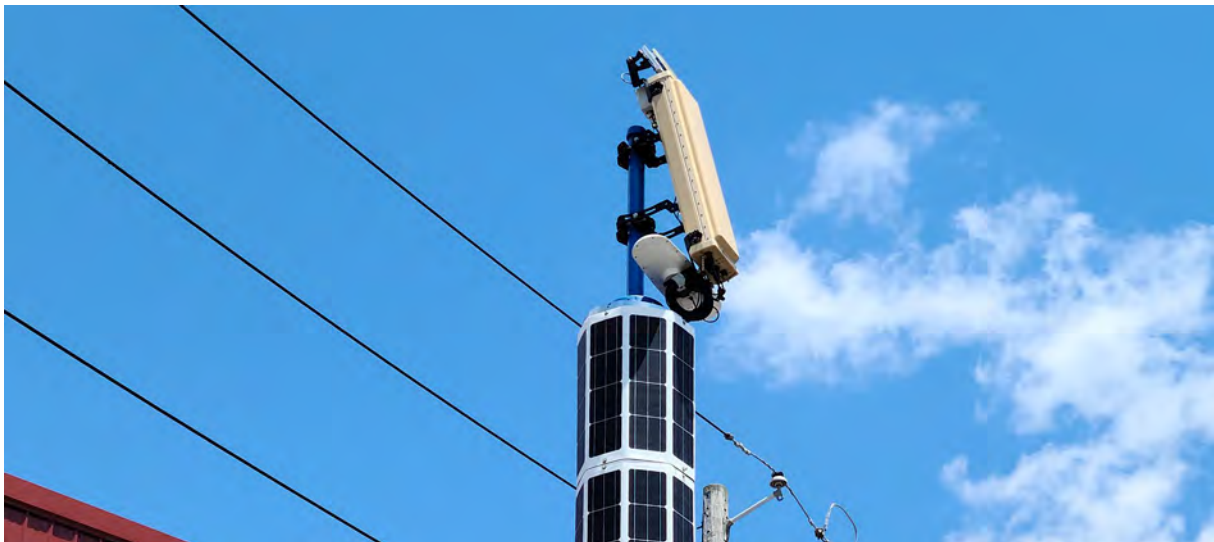


Image: DroneShield US customer demo with DroneSentinel™



Image: DroneShield US customer presentation with RfZero™



Image: DroneShield RfZero™ demonstrated on a Polaris MRZR



Image: DroneShield providing C-UAS training to US Government customers

Australian and New Zealand Departments of Defence and other government agencies

Following several orders from the Australian Department of Defence (DoD) in the recent 12 months, DroneShield continues to actively engage with the DoD and other Australian Government agencies, both directly and as a subcontractor for large defence prime contractors.

Australia continues to ramp up its defence spending, with the Prime Minister announcing a \$270 billion defence budget on 30 June 2020³. The budget continues the key theme to grow domestic Australian defence capability – of which DroneShield is an example.

DroneShield's ability to continue securing Australian DoD contracts is supported by:

- the Australian Government's drive to grow its domestic defence industry,
- DroneShield's status as the only Australian counterdrone manufacturer,
- 100% Australian IP, and
- a local manufacturing operation in Western Sydney, NSW.

³ <https://www.news.com.au/finance/work/leaders/dangerous-and-disorderly-pm-scott-morrison-warns-on-postcovid-world/news-story/f769cf2e430d6dcbfe118d1fdca442a>



Image: DroneShield DroneSentinel™

Additionally, DroneShield has submitted, and is working on further applications for, grants from the Australian Defence Innovation Hub.

Additionally, the Company made its first order deliveries to New Zealand during the quarter.



Image: Packaged RfPatrol MKII™ units ready for shipment

The Middle East

DroneShield has completed shipping the remaining DroneGun Tactical™ units under a prior Middle Eastern Ministry of Defence order, with the customer confirming successful receipt of the goods and all obligations met on DroneShield's part. Accordingly, the Company is awaiting a payment of approximately \$2.7m (in addition to the funds previously received by DroneShield under this order).

The payment was originally slated for the June quarter, however, was delayed due to COVID-19 and Ramadan slowdown, and is now expected to be received this quarter.

While the Middle Eastern regional processes can be drawn out and less streamlined compared to the West, the size of the opportunities is significant, as evidenced by the \$70m to \$85m⁴ potential order that the Company is working on, with a fully completed form of contract awaiting execution by the sovereign customer⁵. The Company continues to have regular discussions with the customer, as part of the recent DroneGun Tactical™ order delivery, and has a very positive relationship with the customer. Further, the customer has requested to evaluate RfPatrol MKII™ - a further demonstration of the strength of the Company's complete ecosystem of products.

The European Union

During the quarter, following a competitive tender, DroneShield's DroneGun Tactical™ product was selected as the preferred solution by the European Union police forces. The process was run by Belgium Police, with an EU-wide framework. Under the framework agreement, DroneGun Tactical™ is expected to be rolled out across a range of police units across the European Union. While the agreement does not specify minimum purchase quantities and as a result the sales impact of this agreement is hard to estimate, DroneShield expects this agreement to produce substantial periodic sales over an extended period of time, with an internal Company target of at least \$4 million in related sales in the next 12 months. Further, the Company expects this framework to be a platform for sales of its other products, such as RfPatrol and its vehicle and fixed site products, to EU police departments.

This is the first framework rollout of counterdrone equipment by any Government customer, anywhere in the world. In addition to the substantial nature of this contract, DroneShield expects for this to set a standard for DroneGun Tactical™ procurement by other government customers in the EU and globally, helping fast-track additional acquisitions.

Importantly, this contract had not been reflected in the Company's High Conviction Pipeline reported in prior quarters, due to the competitive nature of that tender at the time. This illustrates the fact that the High Conviction Pipeline is not an exhaustive list of Company sales opportunities.

Due to COVID-19 delays, the initial purchases under this framework agreement, originally anticipated in 2Q20, are now expected in the current 3Q20.

⁴ Corresponding to US\$45-55 million. Movement from earlier referenced \$60-70 million due to AUD/USD exchange rate fluctuations

⁵ Originally announced on 10 July 2018. Necessarily, there can be no assurance that any of the Company's sales opportunities will result in sales. There is no assurance that the bid referenced in this paragraph will result in a sale.



Image: DroneShield's DroneGun Tactical™ deployed by the French Army

The United Kingdom – Partnership with BT

DroneShield continues its partnership with BT on its counterdrone pipeline. Despite the COVID-19 situation, a number of UK end-users continue to operate, including the UK Ministry of Defence, which is actively evaluating DroneShield's products at the moment. The Company's joint demonstration facility with BT is due to re-open in the UK in August.

Airports

Following a successful trial at a major European airport in the March quarter, DroneShield has been invited to several back-to-back trials at various additional European airports, starting from July. The trials are expected to be followed by a large purchasing program at the end of 2020, that the trials will assist to shape. Due to COVID-19 travel restrictions, DroneShield's European in-country partners are conducting the trials, with the Company's remote support as required. Additionally, the Company is engaging in active discussions and preparing for trial evaluations for airports elsewhere globally. In particular, the rollout of counterdrone systems across US airports is expected to be significant, once the US regulator, the FAA, completes its current review of the approach towards the deployment.

Near-Term High-Conviction Pipeline

The summary of the Company's high-conviction pipeline is as follows.

Deal	Region	Total expected contract value, if awarded (A\$) ⁶	Target timing of initial payment (if awarded)	Comments
1	Middle East	\$70-\$85 million ⁷	3Q20	DroneShield has been awarded preferred bidder status, has agreed the form of the agreement with the counterparty and is currently awaiting the execution of the contract by the relevant Government
2	UK	\$5-10 million	4Q20	Sales expected to flow from an executed agreement with a major European integrator to sell to their customers. Expected purchases delayed to 4Q due to COVID-19

⁶ Necessarily, not all, and there can be no assurance that any, of the Company's sales opportunities will result in sales.

⁷ Corresponding to US\$45-55 million. Movement from earlier referenced \$60-70 million due to AUD/USD exchange rate fluctuations

3	Europe	\$4-5 million	4Q20	The army of a major European country. Expected purchase delayed to 4Q due to COVID-19
4	Europe	\$4-5 million / year	3Q20	Purchases under the contracted EU Police 4 year framework agreement for DroneGun Tactical units
5	US	\$1-3 million	3Q20-4Q20	Miscellaneous anticipated short-term US Government orders
6	Asia	\$1 million	3Q20	RfPatrol™ product (DroneShield as sole provider for law enforcement of a major Asian country)
7	Australia	\$700k	3Q20	Australian Government agency
	Total	\$85 million+		

The above pipeline excludes smaller (sub A\$500,000) items and leads that are less probable at this stage or have an expected six month or longer timeframe to cashflow. There are numerous items of that nature, including highly probable near-term smaller purchase orders. DroneShield has dozens of such opportunities in its pipeline across countries and customer segments, and new opportunities are being added weekly as the customer counterdrone requirements continue to escalate.

All DroneShield pricing is in USD, with the above table translated into AUD at current AUD/USD exchange rates.



Image: DroneGun MKIII™ units ready for shipment



Image: DroneShield US demo, with DroneNode™ and DroneSentry-X™ products displayed

Product Development

During the quarter, the DroneShield team continued to substantially enhance existing and upcoming products. The Company builds its hardware and software from the ground up, enabling a substantial degree of product performance and feature optimisation, while maximizing ruggedization and reducing the formfactor of the products, making them smaller and lighter.



Image: RfPatrol MKII™ units undergoing final QA testing prior to shipment

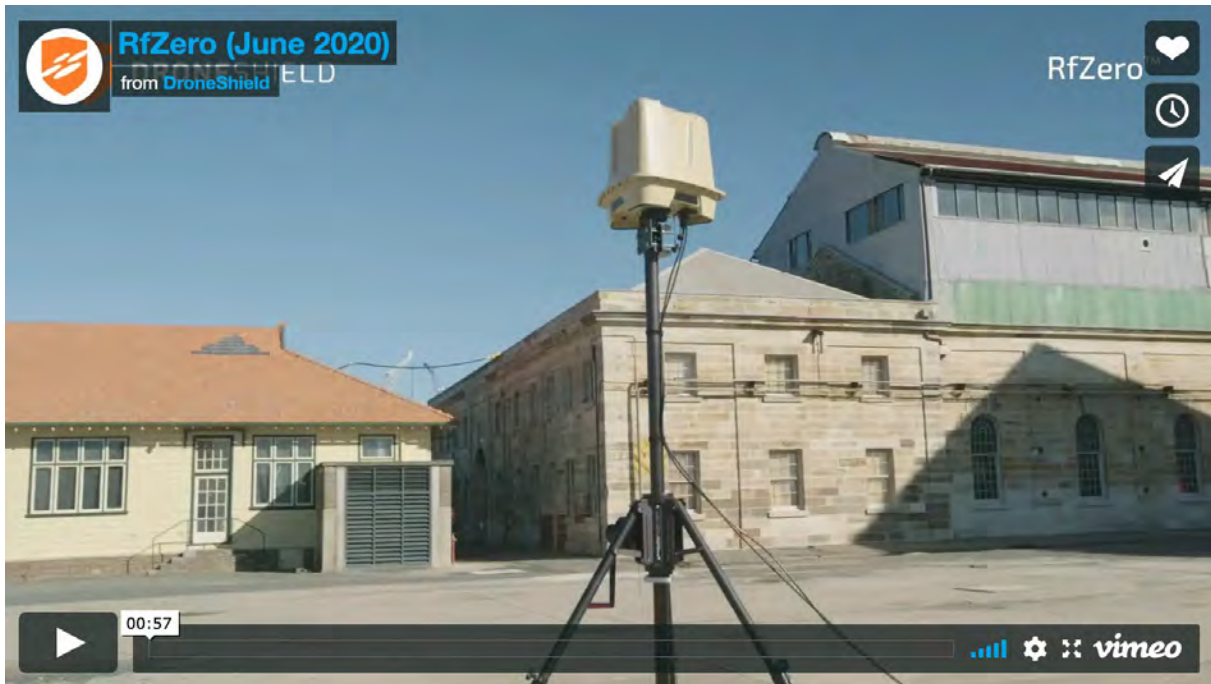
With the core product categories now in place, serving as one major differentiator for DroneShield through enabling an appropriate product for each customer and deployment, the Company's focus is turning towards:

1. evolving the software on its devices, enabling more rapid and comprehensive solutions for the counterdrone and improved threat sector, while supporting the Company's focus to grow its software subscription-based ("SaaS") revenue; and
2. continuing to selectively enhance the hardware, utilising the Company's world leading RF expertise.



Image: DroneShield product testing

You can view the Company's two new product videos for RfZero™ and DroneSentinel™ below:



Video: RfZero™



Video: DroneSentinel™

Artificial Intelligence (AI)-based Drone Detection Engine

In the recent months, DroneShield has continued to implement into its devices, an AI-based engine for drone detection. This is a multi-phase program, ultimately enabling DroneShield devices to rapidly self-learn drone and other threats around them, providing an accurate threat picture to the end user, with options for rapid real-time response. The Company's AI engines have been designed to process multiple streams of signals, such as radio frequencies (RF) and optics.

The AI updates will enhance DroneShield products' current industry-leading detection capabilities and ensure effectiveness against emerging threats. As each phase of the Company's AI program is released to customers, DroneShield will provide its customers with seamless software-based upgrades, demonstrating DroneShield's commitment to future proof counterdrone solutions for its customers, ensuring they always have the most capable, up-to-date technologies and 24/7 protection from the emerging and ever-evolving threat that the commercial and consumer commercial-off-the-shelf (COTS) and modified (MOTS) drones can present.

The current expectation is for an October firmware update (DroneShield conducts quarterly firmware updates to the fielded detection devices, while jammers don't require updates) to be the first AI-based system, with exponentially enhanced detection capabilities versus the current offering. No hardware updates will be required.

DroneSentry-X™

During the quarter, DroneShield continued development of its new vehicle and fixed site based product, DroneSentry-X™, with the initial shipments due this quarter.

Lightweight at approximately 10kg, compact size and easily mountable on most vehicles, the product is expected to be of significant interest to a range of DroneShield's customer base globally, across military, law enforcement, security and VIP markets. The product is suitable for both vehicle/convoy and fixed site installations. The product was developed in response to substantial customer interest.

The Company has received substantial interest in this product, especially in the US Government market, as well as from the rest of the Five Eyes community countries.



Image: DroneShield's DroneSentry-X™

In addition to catering for the on-vehicle segment, DroneSentry-X™ provides a more cost-effective detect-and-defeat solution for price-sensitive customers as an alternative to purchasing the full-featured and larger size DroneSentry™ product.

RfPatrol MKII™

During the quarter, DroneShield continued to enhance its recently released RfPatrol MKII™ body-worn product, following fielding of the initial units sold. With the positive customer feedback, the Company has invested in a number of additional units to be built, both as demo stock and towards fulfilment of near term orders.



Image: RfPatrol MKII™ (right) vs RfPatrol MKI™ (left)

DroneOptID™

During the quarter, DroneShield released DroneOptID™ – an AI-based optical engine, capable of working across a wide range of camera platforms, to detect, ID and track drones. The product was built following an extensive collaboration with the University of Technology Sydney (UTS) under the Defence Innovation Network grant scheme, with DroneShield retaining the project IP.



Image: Testing DroneOptID™ to utilise AI to detect nefarious payloads on drones

Press Coverage

Globally, media has continued its recognition of DroneShield as the cutting edge solution provider in the counterdrone industry. Coverage of DroneShield included the following:

- DroneShield delivers anti-drone tech to the US Government⁸
- DroneShield's DroneGun Tactical selected by European Union Police⁹
- DroneShield unveils latest body-worn drone detection device¹⁰
- DroneShield releases MKII drone detection device¹¹
- DroneShield introduces RfPatrol MKII UAS detection system¹²
- On the Road with RfZero¹³
- DroneShield delivers anti-drone measures to the Middle East¹⁴

Environment

As nefarious use of drones has become commonplace, the issue continues to escalate. Reported instances of nefarious drone use are too numerous to mention in their entirety but some of these have recently included the following.

- An attempt by Pakistan to smuggle in arms ammunition into India through use of drones.
- Contraband deliveries to prison inmates including:
 - A drone was used to drop contraband within the secure perimeter at Canberra's prison.
 - Long Bay Prison riot in Sydney was sparked by a botched drone drug plan attempting to smuggle drugs in due to COVID-19 lockdowns.
- Airport near misses and collisions between drones and aircraft, and resulting airport shutdowns, including:
 - A light aircraft came close to colliding with a drone just outside of Perth.
 - A Royal Canadian Mounted Police (RCMP) drone collided with an RCMP helicopter in British Columbia, Canada.

On 23 June, Yemeni Houthi rebels launched UAV and missile attacks on the Saudi capital Riyadh and on sites near the Yemen border. Saudi Arabia intercepted bomb-laden drones. On 3 July, the Saudi-led alliance engaged in a war in Yemen which stopped four bomb-laden drones also initiated by the Houthi rebels.

U.S. government agencies have instituted policy bans on DJI and Chinese drone purchases as Congress continues to ban Chinese drones.

Please see <https://www.droneshield.com/press-coverage> and <https://twitter.com/DroneShield> for more information.

⁸ <https://dronedj.com/2020/06/24/droneshield-delivers-anti-drone-tech-to-the-us-government/>

⁹ <https://themarketherald.com.au/droneshields-asxdro-dronegun-tactical-selected-by-european-union-police-2020-05-22/>

¹⁰ <https://www.shephardmedia.com/news/digital-battlespace/droneshield-unveils-latest-body-worn-drone-detecti/>

¹¹ <https://www.defenceconnect.com.au/key-enablers/5991-droneshield-releases-mk-ii-drone-detection-device>

¹² <https://www.droneshield.com/press-coverage>

¹³ https://www.armscom.net/news/on_the_road_with_rfzero

¹⁴ <https://www.aumanufacturing.com.au/droneshield-delivers-anti-drone-measures-to-the-middle-east>

Payments to related parties of the entity and their associates

During the quarter, DroneShield paid Sort Hub Pty Ltd \$55,689 for shipping of inventory globally, on normal commercial terms and conditions no more favourable than those available to other parties. Director Jethro Marks is a related party of Sort Hub Pty Ltd.

Board fees paid to Non-Executive Directors and salary to CEO amounted to \$114,247.

Capital Structure

As of the date of this report, there are 252,462,135 ordinary shares on issue. No other class of securities (other than the options referenced below) exist.

Below table summarises current outstanding options, issued to the Board, management and staff (and in the case of class R options, issued to brokers as part of previous capital raisings).

Class	Amount Outstanding	Strike Price	Expiry
E	250,000	30c	29 Mar 2021
F	100,000	30c	22 Jun 2021
G	250,000	30c	29 Mar 2022
J	250,000	50c	22 Jun 2021
K	700,000	50c	22 Jun 2022
M	50,000	20c	22 Jun 2022
N	50,000	20c	22 Jun 2023
O	1,446,066	22c	21 Feb 2021
P	500,000	40c	5 Aug 2022
Q	5,620,000	65c	30 Jun 2023
R	10,000,000	40c	5 Aug 2022
Zepos - Tranche 1	21,000,000	Nil (exercise can only take place when the Company achieves \$10m in revenue in a 12 month period, or a takeover or a similar transaction occurs)	15 Aug 2021
Zepos - Tranche 1	2,459,384		17 Oct 2021
Zepos - Tranche 2	5,620,000	Nil (exercise can only take place when the Company achieves \$20m in revenue in a 12 month period (not counting any revenue applied to Tranche 1 Zepos vesting, or a takeover or a similar transaction occurs)	30 Nov 2022
Total	48,295,450		

Authorised for release by the CEO, Oleg Vornik.

Further Information

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About DroneShield Limited

Based in Sydney (Australia), Virginia (USA) and London (UK), DroneShield is a worldwide leader in drone security technology. The Company has developed the pre-eminent drone security solution that protects people, organisations and critical infrastructure from intrusion from drones. Its leadership brings world-class expertise in engineering and physics, combined with deep experience in defence and intelligence.

END

Appendix 4C

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

Name of entity

DRONESHIELD LIMITED

ABN

26 608 915 859

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	907,845	1,331,919
1.2 Payments for		
(a) research and development	(164,101)	(353,770)
(b) product manufacturing and operating costs	(683,625)	(1,096,870)
(c) advertising and marketing	(95,200)	(352,425)
(d) leased assets	-	-
(e) staff costs	(858,882)	(1,967,081)
(f) administration and corporate costs	(344,740)	(635,092)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9,295	17,198
1.5 Interest and other costs of finance paid	(18,769)	(32,343)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,196,561	1,239,361
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(51,616)	(1,849,103)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(121,001)	(354,404)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(121,001)	(354,404)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	750,368 ¹⁵	750,368
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(22,418)	103,127
3.10	Net cash from / (used in) financing activities	727,950	853,495

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,566,440	5,485,000
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(51,616)	(1,849,103)

¹⁵ Includes factoring of 2020 R&D Tax Incentive and the US Government Paycheck Program – please refer to section 7.6 of this report for further details

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(121,001)	(354,404)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	727,950	853,495
4.5	Effect of movement in exchange rates on cash held	(52,941)	(66,156)
4.6	Cash and cash equivalents at end of period	4,068,832	4,068,832

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,174,345	1,132,631
5.2	Call deposits	1,894,487	2,433,809
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,068,832	3,566,440

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
Payments to CEO and Non-Executive Directors of \$114,247, and payment of \$55,689 for inventory global shipping costs to shipper Sort Hub Pty Ltd, of which the director Jethro Marks is a related party.
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

(169,936)

-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
750,368	750,368
-	-
-	-
-	-

7.5 **Unused financing facilities available at quarter end**

-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

During the quarter, on 1 May 2020, the Company announced that it had entered into a non-convertible loan facility agreement with R&D Capital Partners Pty Ltd. Under the terms of the agreement, the Company drew down \$600,000, which is equivalent to the majority of the Research and Development Tax Incentive expected by the Company, to be received from the Australian Government for the period ending 31 December 2020.

The Company received loan proceeds of AU\$150,368 (US\$99,600) under the Paycheck Protection Program ("PPP"). The loan bears a fixed interest rate of 1% per annum. The loan and accrued interest are forgivable at the end of the loan term if the loan proceeds are used for qualifying expenses. The Company intends to use the proceeds for purposes consistent with the PPP and currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(51,616)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,068,832
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	4,068,832
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	78.83

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Compliance statement

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

Date: 22 July 2020

Authorised by: 
Carla Balanco, Company Secretary

Notes

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