



DRONESHIELD

Quarterly Report

For the period ending
30 September 2021

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Image: DroneShield RfPatrol MKII™ drone detection body-worn device

DroneShield Limited (ASX:DRO)

ASX Release

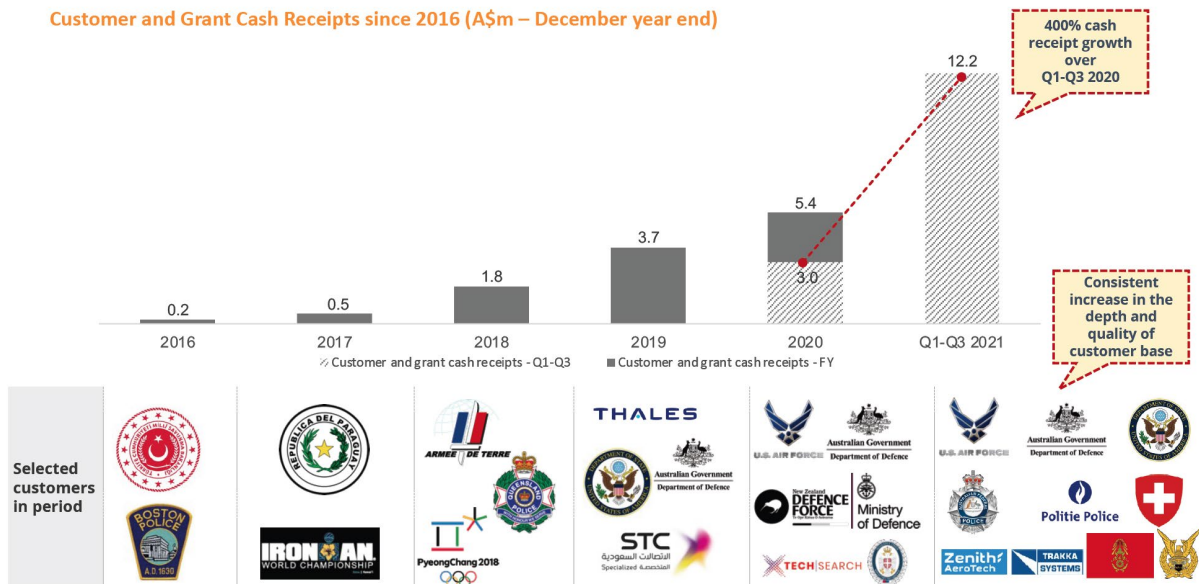
ABN 26 608 915 859

DroneShield Limited (ASX:DRO) ("DroneShield" or the "Company") is pleased to release its business update and Appendix 4C for the three-month period ended 30 September 2021.

Highlights

- 3Q21 customer receipts **up 800%** on 3Q20, at \$1.7 million.
- Total cash receipts for the quarter of \$2.8m, including \$1.1m of grants received.
- Jan-Sep 2021 total cash receipts **up 400%** on Jan-Sep 2020, at \$12.2 million.
- Multiple first time sales with Government end customers in the US, Europe and Brazil, as well as repeat sales across US, UK, Australia and South-East Asia.
- While defence and Government agencies account for majority of sales, other initial deployments included a prison, an airport, and an Oil & Gas facility.
- Bank balance as at 30 September 2021 at \$12.1 million, with monthly gross outflows (before revenues) of approximately \$1 million/month.

Customer and Grant Cash Receipts since 2016 (A\$m – December year end)



Outlook

- Committed order book of \$3 million, with \$1.4m due this 4Q21 quarter. Most cash receipts for the current quarter are expected to come outside of (that is, in addition to) the current order book.
- \$230 million global pipeline (unrisked cash receipts to Dec 2022), with growing focus towards the more business-transparent US and Australian Government customer base.
- Progression through customer evaluations, including the Joint Counter-small Unmanned Aircraft Systems Office (JCO) in the US at Yuma Proving Ground, and the Interpol evaluation at Oslo Airport, amongst others.
 - Active customer engagement at trade shows globally, including AUSA (US) with Team Defence Australia, Milipol (France), Adex (South Korea), and FAMEX (Mexico).
 - Active global marketing/demo program via DroneShield US and UK offices, virtual demos, and global partner network.

Australia

- Continuing to successfully execute on the \$3.8 million 2-year Electronic Warfare contract with the Australian Department of Defence.
 - A follow-on multi-million dollar multi-year contract expected to be awarded in the next 6 months.
- DroneShield received Australian DoD secret clearance during the 3Q21 quarter, enabling it to undertake the more sensitive work.

United States

- High-profile evaluations, initial and repeat sales during and subsequent to the quarter, including Department of Homeland Security.
- DroneSentry-X™ and RfOne™ formally approved as compliant RF detection and soft defeat components of the US DoD MEDUSA fixed site system. This is expected to lead into major orders of those products in 2022, as the US DoD rolls out broader procurement for counterdrone products.
- Currently under a formal trial to enter into a major Program of Record with a high-profile Government Agency for DroneShield handheld products.

Airports

- Airports in the US (via FAA), Australia (via Air Services Australia) and globally are actively evaluating counterdrone deployments, with DroneShield well positioned as a mature, long range, passive/non-emitting solution.
- During the quarter, DroneShield made a trial sale for initial deployment into a major tier 1 airport in Europe.

Products

- Continued move to a SaaS model, via three subscription products:
 - Quarterly firmware updates to drone detection Artificial Intelligence (AI) engine software running on hardware of RfPatrol™, DroneSentry-X™, RfOne™ and RfZero™.
 - Quarterly firmware updates to the camera AI engine DroneOptID™ for optical and thermal based drone detection, ID and tracking.
 - DroneSentry-C2™ Command-and-Control and analytics software for DroneShield and third party sensors, across counterdrone and general base security solutions. This platform is expected to be formally launched as a paid product in January 2022. It will, additionally, form the basis of DroneShield's training and simulation suite of software in counterdrone and perimeter security space, over time.
- DroneShield continuously builds on its global leadership in Artificial Intelligence within multiple domains across spectrum intelligence, robotics, and computer vision.
- Product launches of SonarOne™ (underwater drone and diver detection), CompassOne™ (ruggedized navigation for sensors) and DroneSim™ (training and simulation tool).

Other key items

- Ongoing engagement on the active Middle Eastern opportunities, including several contracts in advanced stages.
- Added inventory during the quarter to mitigate supply chain delay risks in current environment. \$11 million of inventory by sale value on hand to meet near term pipeline requirements.
- Global team at 60 staff, with hiring focus on expanding the US sales and technical support teams and Australian engineering team.
- Highly favourable macro environment for DroneShield:
 - rapidly rising counterdrone expenditure globally, as drone incidents continue: <https://www.droneshield.com/uas-incidents>
 - ongoing increase in local defence capability by the Australian Government.

Authorised for release by Oleg Vornik, CEO and Managing Director.

Further Information

Oleg Vornik
CEO and Managing Director
Email: oleg.vornik@droneshield.com
Tel: +61 2 9995 7280

About DroneShield Limited

DroneShield (ASX:DRO) is an Australian publicly listed company with its head office in Sydney and teams in the US and UK, specialising in C-UAS, Electronic Warfare, RF sensing, Artificial Intelligence and Machine Learning, Sensor Fusion, rapid prototyping and MIL-SPEC manufacturing. Our capabilities are used to protect military, Government, law enforcement, critical infrastructure, commercial and VIPs throughout the world.

Through our team of Australian based engineers, we offer customers bespoke solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime or airborne platforms. DroneShield is proudly exporting Australian capability to customers throughout the world and supporting Australia's defence, national security and other organisations protect people, critical infrastructure and vital assets.

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 September 2021

| Consolidated statement of cash flows | Current quarter \$A | Year to date (9 months) \$A |
|--|--------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 1,696,618 | 10,817,342 |
| 1.2 Payments for | | |
| (a) research and development | (322,565) | (613,924) |
| (b) product manufacturing and operating costs | (1,569,846) | (6,574,971) |
| (c) advertising and marketing | (262,515) | (884,503) |
| (d) leased assets | - | - |
| (e) staff costs | (1,803,830) | (4,869,242) |
| (f) administration and corporate costs | (837,641) | (2,993,613) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 2,375 | 35,014 |
| 1.5 Interest and other costs of finance paid | (9,764) | (26,736) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives (Excludes grant received of AU\$150,368 (US\$99,600) from the US Government, under the Paycheck Protection Program). | 1,097,651 | 1,210,621 |
| 1.8 Other (provide details if material) | 17,600 | 70,400 |
| 1.9 Net cash from / (used in) operating activities | (1,991,917) | (3,829,612) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire or for: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | (195,445) | (368,014) |

| Consolidated statement of cash flows | | Current quarter \$A | Year to date (9 months) \$A |
|---|---|--------------------------------|--|
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (g) entities | - | - |
| | (h) businesses | - | - |
| | (i) property, plant and equipment | - | - |
| | (j) investments | - | - |
| | (k) intellectual property | - | - |
| | (l) 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 | (195,445) | (368,014) |

| | | | |
|-------------|---|-----------------|------------------|
| 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 | - | - |
| 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) | (45,408) | (110,468) |
| 3.10 | Net cash from / (used in) financing activities | (45,408) | (110,468) |

| | | | |
|-----------|--|-------------|-------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 14,250,590 | 16,288,772 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,991,917) | (3,829,612) |

| Consolidated statement of cash flows | | Current quarter \$A | Year to date (9 months) \$A |
|---|--|--------------------------------|--|
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (195,445) | (368,014) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (45,408) | (110,468) |
| 4.5 | Effect of movement in exchange rates on cash held | 85,005 | 122,147 |
| 4.6 | Cash and cash equivalents at end of period | 12,102,825 | 12,102,825 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A | Previous quarter \$A |
|-----------|---|--------------------------------|---------------------------------|
| 5.1 | Bank balances | 8,228,244 | 10,376,009 |
| 5.2 | Call deposits | 3,874,581 | 3,874,581 |
| 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) | 12,102,825 | 14,250,590 |

| 6. | Payments to related parties of the entity and their associates | Current quarter \$A |
|-----------|--|--------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 Payments to CEO and Non-Executive Directors of \$122,330, and payment of \$18,144 for inventory global shipping costs to shipper Sort Hub Pty Ltd, of which the director Jethro Marks is a related party. | (140,474) |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |


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

| | | |
|-----------|--|-------------|
| 8. | Estimated cash available for future operating activities | \$A |
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (1,991,917) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 12,102,825 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 12,102,825 |
| 8.5 | Estimated quarters of funding available (item 8.4 divided by item 8.1) | 6 |
| | <i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i> | |
| 8.6 | If item 8.5 is less than 2 quarters, please provide answers to the following questions: | |
| 8.6.1 | Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not? | |
| | Answer: N/A | |
| 8.6.2 | Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful? | |
| | Answer: N/A | |
| 8.6.3 | Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis? | |
| | Answer: N/A | |
| | <i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i> | |

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: 26 October 2021

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.