

department 

Department 13 International Ltd
(formerly known as Kunene Resources Limited)

ACN: 155 396 893

**Consolidated Financial Statements
for the Year Ended 30 June 2016**

**Department 13 International Ltd
2016 Financial Report**

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**Department 13 International Ltd
2016 Financial Report**

Corporate Information

Department 13 International Ltd

Directors

Jonathan Hunter
Kathleen Kiernan
Al Teller
Philp George
Gavin Rezos

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Australia

Place of Business

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Auditor

RSM Australia Partners
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Australia

Lawyer

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Australia

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Department 13 International Ltd
Chairman's Letter

Dear Shareholders,

I am pleased to present your Company's annual report for 2016. The year has been one of growth and achievement highlighted by a number of significant milestones.

We began the year with our relisting on the Australian Securities Exchange as Department 13 International Limited with ASX code D13. We relocated our global headquarters to Columbia, Maryland and built up our staff with extremely talented senior engineers and software developers experienced in network communications. Department 13 has now successfully established itself as the leader in counter drone technology with our award winning Mesmer™ Counter Drone System.

Throughout the development process of Mesmer™, we have conducted numerous successful demonstrations for key clients across a variety of market sectors both in the United States and internationally. These demonstrations included government agencies as well as commercial prospects.

Importantly, we have had a number of key patents granted in the US to add to our substantial patent portfolio in the areas of network communications and counter drone technology. Our patent portfolio now stands at 11 Granted Patents and 15 Patent Applications.

Post June 30 year end, the Mesmer™ technology was validated at key trials, including the Mitre Challenge in Virginia, USA and the US Government Black Dart event in Florida, USA. Department 13 was selected as a finalist for the Mitre Challenge from over 40 applicants. At this event, the Company conducted successful mitigations (interdictions that are done safely and under clear control) of commercial drones at distances in excess of one kilometre.

The Black Dart exercise tested technologies for detecting, identifying, tracking and defeating or disabling Unmanned Aerial Systems (UAS). Black Dart was run by the US Joint Integrated Air and Missile Defense Organization (JIAMDO) with over 1,200 participants and observers. Department13 successfully demonstrated Mesmer™, surpassing all expectations. Over the course of the exercise, Mesmer™ deployed mitigations in excess of one kilometre and took control of the drone set tested. Mesmer™ mitigated its targets well within the test objectives, a key operational requirement, and well under the acceptable threshold for defense organizations. In addition, Department 13 showcased Mesmer™'s field flexibility by deploying "on-the-fly" detection capabilities against unknown drones, furthering operational readiness.

The successful development of Mesmer™ during 2016 has set the stage for a robust commercialization process beginning with pre-sales of Mesmer™ Version 1 in December leading to a full product launch in January 2017. The Company has put in place a global distributorship chain to support the launch of Mesmer™.

In conclusion, the outlook for Mesmer™ is exciting and our goal for 2017 is to establish it as the market leader in counter-drone technologies and products.

On behalf of myself and the Board of Department 13, I would like to thank you for your continued support. We are dedicated to the task of growing shareholder returns in 2017.

Yours Faithfully,



Jonathan A. Hunter
Chairman

Department 13 International Ltd
Maryland 30 September 2016

**Department 13 International Ltd
Chairman's Letter (Continued)**

Major accomplishments from FY2016:

- Strategic relationship with Booz Allen Hamilton – BAH (NYSE)
- Validation of company's technology and market demand as a finalist at Mitre Challenge and US DoD sponsored "Black Dart" events
- US Department of Defense Awards Department 13 US\$432,000 for Counter-Drone Technology
- Contract award with Parsons on US Naval Research Lab Information Technology Division- US\$245M IDIQ contract
- Created a worldwide distribution sales channel with market leaders in their geographical areas
- Completion of corporate restructuring, two successful capital raises totaling A\$12.5 million and relisting on the ASX

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Department 13 International Ltd Directors' Report

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Department 13 International Ltd (formerly known as Kunene Resources Limited [ASX.KNE] and referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

Jonathan Hunter	Chairman, CEO, appointed 18 December 2015
Kathleen Kiernan	Executive Director, appointed 18 December 2015
Al Teller	Executive Director, appointed 18 December 2015
Philip George	Non-Executive Director, appointed 18 December 2015
Gavin Rezos	Non-Executive Director, appointed 18 December 2015
Philip Werrett	Non-Executive Director, resigned 18 December 2015
Peter Pawlowitsch	Non-Executive Director, resigned 18 December 2015
Brandon Munro	Former Managing Director, resigned 18 December 2015
Michael Leech	Non-Executive Director, resigned 7 September 2015

Chief Executive Officer

Jonathan Hunter

Company Secretary

Kevin Kye	Appointed 24 March 2016
Ian Hobson	Resigned 24 March 2016

Information on Directors

Jonathan Hunter

*Chief Executive Officer and Executive Chairman
Appointed 18 December 2018*

Mr Hunter is the chief executive officer of D13, and is a former advisor to the US National Academy of Science on defense technology. Mr Hunter has more than 25 years' experience in leadership positions within the US Military and US Government Advisory Committees. As a principal for D13, he is responsible for growing and managing all US strategic relationships, including supporting, assisting, and advising the company's path to market and growth within the areas of the three levels of government.

Mr Hunter holds a Bachelor of Science majoring in Criminal Justice and an MBA (Technology Management Program).

Kathleen Kiernan

US Executive Director- Government Relations

Appointed 18 December 2018

Dr Kathleen Kiernan is the founder and CEO of Kiernan Group Holdings, Inc. a global consulting firm specializing in law enforcement, defense, and intelligence industries with specialized support to federal and civil clients in the areas of strategy, policy, tactics, and training.

**Department 13 International Ltd
Directors' Report (Continued)**

Dr Kiernan is a 29-year veteran of Federal Law Enforcement. She has previously served as the Assistant Director for the Office of Strategic Intelligence and Information for the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), Member of the Army Science Board, and a Member of the Air Force Strategic Studies Board.

Dr Kiernan is an appointed member to IBM Network Science Research Center (NSRC), collaboration between the Sensemaking Fellowship (formerly based at the MIT International Development Initiative) Swansea University's Network/Relationship Science Analytics PhD Program as well as its NSRC, and scholars from academic institutions, such as MIT and Harvard. Dr Kiernan is also a member of the AFCEA Executive Committee (Class of 2015), and the AFCEA Intelligence and Homeland Security Committees.

Dr Kiernan was the recipient of the US National Women of Influence-Public Sector award in 2010.

Dr Kiernan completed her Doctorate in Education at Northern Illinois University, and her Master of Science in Strategic Intelligence at the Joint Military Intelligence College in Washington, DC. She also holds a Master of Arts in International Transactions from George Mason University Homeland Security Policy Institute, and she is a faculty member at The Johns Hopkins University and at the Naval Postgraduate School Center for Homeland Defense and Security.

Al Teller

US Executive Director - Commercial

Appointed 18 December 2018

Mr Teller is the former Chairman and CEO of the MCA Music Entertainment Group (now Universal) and the former President of Columbia Records and CBS Records (now Sony). Mr Teller served as the music industry's representative on the National Information Infrastructure Advisory Council created by US President Bill Clinton to develop public policy regarding the Internet. He currently consults various organizations on corporate, internet and media strategies.

After MCA, Teller led two venture capital-funded businesses, Atomic Pop LLC and Red Ant Entertainment, both widely regarded as innovative milestones in the growth of the digital distribution of music through the Internet. Mr Teller graduated from Columbia University with a BS in Electronics Engineering and an MS in Operations Research and went on to earn an MBA from Harvard Business School.

Philip George

Non-Executive Director

Appointed 18 December 2018

Mr George has experience as a managing director and operations manager with a strong background in cyber security and IT networking. He has previously worked as a general manager, technical director, global IT manager, team lead, and IT Manager. For the last eleven years, Mr George primarily serviced the Finance, Oil & Gas, Start-up & Mining and Petrochemical industries. Mr George is the former Operations Manager for Uber Australia.

Mr George is the founder of NURV Consulting which delivers custom cloud based solutions to small & medium businesses. Over six years after establishing NURV Consulting, Mr George established and maintained wholesale and supplier relationships with Australian and international solutions providers to deliver premium end customer solutions.

Department 13 International Ltd Directors' Report (Continued)

Gavin Rezos

Non-Executive Director

Appointed 18 December 2018

Mr Rezos is a principal of Viaticus Capital LLC, a firm which specializes in structuring and arranging public and private funding for growth businesses in the technology sector. Viaticus has offices in London, Washington and Perth, utilizes an international network of investors and advisors for cross border transactions.

Mr Rezos has degrees in law and arts, and he has previously worked as a solicitor in Australia and the UK, and was a former Investment Banking Director of HSBC with regional roles in HSBC in London, Sydney and Dubai.

Mr Rezos is Executive Chairman of Alexium International Group Limited, an ASX (ASX:AJX) OTC QX (US) listed technology company commercializing patented environmentally friendly flame retardants to the US Defense sector and commercial markets, with an operational business based in Greer, South Carolina, US.. Mr Rezos is a Non-Executive Director of Metalysis PLC, a Cambridge University spin out company with a patented metals processing technology in which Iluka is a major investor, appointed March 2014. He is a Non-Executive Director of Iluka Resources Limited (an ASX top 100 company) and Resource and Energy Group Limited (ASX: REZ)

Meetings of Directors

Director	Meetings	
	Eligible to Attend	Attended
Jonathan Hunter	3	3
Kathleen Kiernan	3	3
Al Teller	3	3
Philip George	3	3
Gavin Rezos	3	3
Philip Werrett	8	8
Peter Pawlowitsch	8	8
Brandon Munro	8	8
Michael Leech	2	2

Review of Operations and Financial Results

The net loss after tax for the year was \$6,759,804 (2015 loss: \$65,650). The loss in the 2016 financial year increased significantly from the prior year due to increased costs incurred by the Group as it accelerated its research and development program and sought to commence production. Significant one-off costs were also incurred in relisting on the Australian Stock Exchange as well as completing the reverse acquisition of Department 13 LLC (\$2,709,933).

Principal Activities and Strategy

The Group's core activity is drone defence, cyber security and RF software communications and networking. Department 13 LLC is based in Virginia, USA which has research and development contracts with multiple US Government agencies.

Recent Highlights

- New US patent for Coordinated Routing;
- Awarded US Department of Defence contract;
- Established strategic relationship with Booz Allen Hamilton for Counter UAV opportunities.

Department 13 International Ltd Directors' Report (Continued)

New US Patent

The Group was granted a new patent for advanced networking technology used in counter-drone systems, Coordinated Routing Patent No. 9325805. This technology will further enhance the Group's drone defense capabilities and advanced communication networking by providing an unprecedented increase in data bandwidth via radio networks and improving ad-hoc networks used to detect and communicate with airborne targets.

US Department of Defense Contract

The Group was awarded an initial Technology Development Contract to develop specialized technology and products for a counter-drone solution. The development contract is for a 12 month period with potential increased grant funding during the period for additional development work.

Strategic Relationship

The Group established a strategic relationship with Booz Allen Hamilton, which will be a preferred systems integrator for D13 Counter UAV technology for US Defense opportunities.

Booz Allen is a global provider of management and technology consulting and engineering services to Fortune 500 corporations, governments and not-for-profits. Through the relationship, D13 will tap into Booz Allen's credibility and knowledge of emerging defense requirements and systems integration.

Significant Changes in State of Affairs

Acquisition of Department 13 LLC

The acquisition of Department 13 LLC was completed in December 2015. The \$6 million capital raising was heavily oversubscribed.

The acquisition was treated as a reverse acquisition under *AASB 3 Business Combinations (FP)*.

Legally, as at 31 December 2015, Department 13 LLC is now a wholly owned subsidiary of Department 13 International Ltd (ASX: D13), although it is noted that from an accounting perspective Department 13 LLC is the acquirer and D13 International Ltd the acquired accounting subsidiary. This means that the financial statements of D13 will reflect the opening comparatives and be adjusted against the balance of Department 13 LLC.

Disposal of the Resource Projects

Shareholders approved the sale of the Kaoko Project together with its other resource projects at the Shareholders' Meeting held on 30 November 2015.

The Group's resource assets consisted of the following:

- a) African Mining Capital Pty Ltd, the ultimate holding company for the 95% owned Kaoko Project in Namibia;
- b) Kunene North Pty Ltd, the ultimate holding company for a 95% interest in several ungranted licence applications in Namibia;
- c) A 49% shareholding in Bolt Resources Pty Ltd, which is the holder of the Alcoutim licence in Portugal;
- d) Various exploration related fixed assets located in Namibia.

The above resource assets were fully impaired by the Group as of 30 June 2015.

Department 13 International Ltd Directors' Report (Continued)

These transactions took place prior to the reverse acquisition and are therefore not reflected in these financial statements.

No other significant changes in the Group's state of affairs occurred during the financial period.

Matters Subsequent to Balance Date

- Launch of MESMER-EX, a new Drone intelligence and Forensic Service;
- A\$6 million Private Placement.

Launch of MESMER-EX

At the beginning of July 2016, the Group introduced MESMER-EX, a new Drone intelligence and Forensic Service for law enforcement to examine drones suspected of illegal activity.

MESMER-EX provides the following drone data exploitation capabilities:

- Telemetry and Pattern of Life analysis including speed, altitude, direction, range and more;
- Geo-Spatial data, such as GOS data, launch and stop points, time and date etc;
- Power and battery analysis;
- Sensor data analysis such as video feeds or image capture;
- Payload modification analysis;
- Discovery of technical expertise and signatures of those modifying the drone;
- And more while preserving legal chain of custody.

Private Placement

In late July 2016, the Group received commitments from new and existing shareholders to subscribe for 52 million new ordinary shares at an issue price of A\$0.125 per share to raise A\$6.5 million before costs.

The private placement was strongly supported by institutional investors and was well oversubscribed with the initial raise of A\$6 million being extended to A\$6.5 million to partially satisfy extra demand.

Proceeds will be used to accelerate commercial delivery Version 1 of MESMER-EX by December 2016, prompted by demand from both government and commercial sectors in the US and abroad.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this financial statements because the directors believe it could potentially result in unreasonable prejudice to the Group.

**Department 13 International Ltd
Directors' Report (Continued)**

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 paid to members during the financial year (2015: \$Nil).

Indemnification of officers

During the financial year the Group paid premiums in respect of a contract insuring Directors and Executives against a liability incurred in the ordinary course of business.

Proceedings on behalf of the Group

No person has applied to the Court for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on page 14.

Auditor

RSM Australia Partners was appointed as the Company's auditor on 23 September 2015.

Department 13 International Ltd Remuneration report

This report outlines the remuneration arrangements in place for directors and executives of the Group.

Remuneration philosophy

The performance of the Group depends upon the quality of its directors and executives, and the ability of the Group to attract, motivate and retain highly skilled directors and executives.

Remuneration committee

The Remuneration Committee of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board of Directors recognises that the success of the Group will depend on the quality of its directors and its senior management. For this reason the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated, highly skilled and appropriately qualified directors and executives.

Structure

The Company's Constitution and the ASX listing rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between them. The latest determination was at the Annual General Meeting held on 30 November 2015 when shareholders approved an aggregate remuneration amount of up to \$500,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors is reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the directors on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

Non-executive directors' remuneration is not linked to the performance of the Company.

The remuneration of non-executive directors for the year ending 30 June 2016 is detailed in Table 5 of this report.

**Department 13 International Ltd
Remuneration Report (Continued)**

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market conditions and the circumstances of the Company to ensure that the remuneration offered is sufficient to attract executives of the highest calibre.

Fixed remuneration

The fixed remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Equity Based Remuneration

The equity based remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Table 1 - Shareholdings of key management personnel

Directors	Opening balance	Granted as compensation	Acquisition of Department 13 LLC	Balance 30/06/2016
J Hunter	-	-	41,600,000	41,600,000
K Kiernan	-	-	125,000	125,000
A Teller	-	-	50,000	50,000
P George	-	-	50,000	50,000
G Rezos	-	-	23,225,000	23,225,000
R Sen	-	-	40,000,000	40,000,000
S Shattil	-	-	20,800,000	20,800,000
S Kaminaris	-	-	-	-
Total	-	-	125,850,000	125,850,000

Table 2 - Performance shares held by key management personnel

Directors	Opening balance	Acquisition of Department 13 LLC	Perf. shares converted	Perf. Shares lapsed	Balance 30/06/2016
J Hunter	-	40,000,000	-	-	40,000,000
K Kiernan	-	-	-	-	-
A Teller	-	-	-	-	-
P George	-	-	-	-	-
G Rezos	-	26,500,000	-	-	26,500,000
R Sen	-	40,000,000	-	-	40,000,000
S Shattil	-	20,000,000	-	-	20,000,000
S Kaminaris	-	-	-	-	-
Total	-	126,500,000	-	-	126,500,000

**Department 13 International Ltd
Remuneration Report (Continued)**

Table 3 - Option holdings of key management personnel

Directors	Opening balance	Acquisition of Department 13 LLC	Options exercised	Options lapsed	Balance 30/06/2016
J Hunter	-	-	-	-	-
K Kiernan	-	-	-	-	-
A Teller	-	-	-	-	-
P George	-	-	-	-	-
G Rezos	-	17,000,000	-	-	17,000,000
R Sen	-	-	-	-	-
S Shattil	-	-	-	-	-
S Kaminaris	-	-	-	-	-
Total	-	17,000,000	-	-	17,000,000

Table 4 - Performance right holdings of key management personnel

Directors	Opening balance	Acquisition of Department 13 LLC	Rights exercised	Rights lapsed	Balance 30/06/2016
J Hunter	-	12,500,000	-	-	12,500,000
K Kiernan	-	3,000,000	-	-	3,000,000
A Teller	-	3,000,000	-	-	3,000,000
P George	-	1,250,000	-	-	1,250,000
G Rezos	-	4,000,000	-	-	4,000,000
R Sen	-	12,500,000	-	-	12,500,000
S Shattil	-	5,000,000	-	-	5,000,000
S Kaminaris	-	-	-	-	-
Total	-	41,250,000	-	-	41,250,000

Table 5 - Details of remuneration

2016 Name	Salary and fees	Other fees	Post-employment benefits	Share based payments	Total
	\$	\$	\$	\$	\$
Directors					
J Hunter	166,473	-	-	-	166,473
K Kiernan	20,022	78,374	-	-	98,396
A Teller	20,022	20,595	-	-	40,617
P George	14,000	-	1,330	-	15,330
G Rezos	20,022	60,411	-	-	80,433
R Sen	165,901	-	-	-	165,901
S Shattil	105,833	-	-	-	105,833
S Kaminaris	84,666	-	-	-	84,666
Total	596,939	159,380	1,330	-	757,649

**Department 13 International Ltd
Directors' Report (Continued)**

Performance of the company and shareholder returns

The application of Department 13 International Limited's executive reward framework have regard to the following shareholder return indices. No historical data has been provided given the company only listed on the ASX in the current financial year.

	2016
	\$
Sales revenue	394,501
EBITDA	(6,759,804)
Loss after income tax	(6,775,459)
Share price at financial year end (\$)	0.13
Basic loss per share (cents per share)	(2.80)



Jonathan Hunter
Chief Executive Officer

30 September 2016

**Department 13 International Ltd
Corporate Governance Statement**

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Department 13 International Ltd ('the Company') has adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Company's Corporate Governance Statement for the financial year ending 30 June 2016 is dated as at 30 June 2016 and was approved by the Board on 30 September 2016. The Corporate Governance Statement is available on the Company's website at <http://www.department13.com>

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Department 13 International Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS



G N Sherwood
Partner

Sydney, NSW

Dated: 30 September 2016

Department 13 International Ltd
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 30 June 2016

	Notes	For the Year Ended 30 June 2016 \$	For the Year Ended 30 June 2015 \$
Revenue from continuing operations	3	394,501	398,865
Consulting expenses		(853,986)	(227,421)
Depreciation expenses		(15,655)	(590)
Impairment expense		(47,677)	
Bad debts expense		(2,059)	-
Cost of listing including advisor fees	4	(2,709,933)	-
Employee benefits expense		(500,562)	-
General and administration expenses		(722,597)	(173,472)
License fees and patent expense		(65,141)	(45,499)
Professional fees		(294,963)	(12,080)
Research and development expense		(1,519,661)	(5,453)
Materials		(29,717)	-
Advertising and marketing		(392,354)	-
Loss before income tax		(6,759,804)	(65,650)
Income tax expense	5	-	-
Loss for the year		(6,759,804)	(65,650)
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i>			
Exchange differences on translating foreign operations, net of tax		(112,531)	2,510
Total comprehensive loss for the year		(6,872,335)	(63,140)
Earnings per share			
<i>From continuing operations</i>			
- Basic/diluted earnings per share (Cents)	17	(2.80)	(0.19)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Department 13 International Ltd
Consolidated Statement of Financial Position
As at 30 June 2016

	Notes	As at 30 June 2016 \$	As at 30 June 2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	2,513,371	39,396
Trade and other receivables	7	114,542	22,308
Total Current Assets		2,627,913	61,704
Non-Current Assets			
Trade and other receivables	7	44,974	-
Property, plant and equipment	8	132,049	6,012
Total Non-Current Assets		177,023	6,012
Total Assets		2,804,936	67,716
LIABILITIES			
Current Liabilities			
Trade and other payables	9	535,867	77,080
Total Current Liabilities		535,867	77,080
Total Liabilities		535,867	77,080
Net Assets / (Liabilities)		2,269,069	(9,364)
EQUITY			
Contributed equity	11	8,581,846	29,258
Other contributed equity	11	418,320	-
Reserves	12	69,031	1,702
Accumulated losses		(6,800,128)	(40,324)
Equity / (Deficiency in Equity)		2,269,069	(9,364)

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Department 13 International Ltd
Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2016

	Notes	Contributed equity \$	Other contributed equity \$	Accumulated Losses \$	Reserves \$	Total \$
2015						
At 1 July 2014		29,258	-	25,326	(808)	53,776
Loss for the year		-	-	(65,650)	-	(65,650)
Foreign currency transaction reserve movement		-	-	-	2,510	2,510
Total comprehensive loss		-	-	(65,650)	2,510	(63,140)
At 30 June 2015		29,258	-	(40,324)	1,702	(9,364)
2016						
At 1 July 2015		29,258	-	(40,324)	1,702	(9,364)
Loss for the year		-	-	(6,759,804)	-	(6,759,804)
Foreign currency transaction reserve movement		-	-	-	(112,531)	(112,531)
Total comprehensive loss		-	-	(6,759,804)	(112,531)	(6,872,335)
Shares issued in the period, net of issue costs	11	8,552,588	-	-	-	8,552,588
Performance shares issued	11	-	418,320	-	-	418,320
Options issued	12	-	-	-	179,860	179,860
At 30 June 2016		8,581,846	418,320	(6,800,128)	69,031	2,269,069

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

Department 13 International Ltd
Consolidated Statement of Cash Flows
For the Year Ended 30 June 2016

	Notes	For the Year Ended 30 June 2016 \$	For the Year Ended 30 June 2015 \$
Cash flows from operating activities			
Receipts from customers		344,492	423,978
Payments to suppliers and employees		(4,217,675)	(396,743)
Interest received		8,454	-
Refundable deposits paid		(46,289)	-
Net cash (outflow)/inflow from operating activities	15	(3,911,018)	27,235
Cash flows from investing activities			
Payments for plant and equipment		(150,141)	(6,520)
Payment for intellectual property		(28,986)	-
Loans repaid by other entities		5,000	-
Cash acquired in transaction	4	4,562	-
Net cash outflow from investing activities		(169,565)	(6,520)
Cash flows from financing activities			
Shares issued net of issue costs		5,640,000	-
Loan proceeds received		1,000,000	-
Net cash inflow from financing activities		6,640,000	-
Net increase in cash and cash equivalents		2,559,417	20,715
Cash and cash equivalents at the beginning of the financial year		39,396	20,529
Foreign exchange adjustment to cash balance		(85,442)	(1,848)
Cash and cash equivalents at end of the year		2,513,371	39,396

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

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of Department 13 International Ltd (formerly known as Kunene Resources Limited [ASX.KNE] and referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standard Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of the statements are as follows:

Accounting policies

(a) Reverse Acquisition Accounting

On 18 December 2015, Department 13 International Ltd (formerly Kunene Resources Limited, "D13 International") wholly acquired Department 13 LLC.

Under the accounting standard applicable to business acquisitions, AASB 3 *Business Combinations (FP)*, the acquisition does not meet the definition of a business combination as the net assets of D13 International at the date of acquisition did not represent a business. The transaction has therefore been accounted for as a reverse acquisition of D13 International by Department 13 LLC. The transaction has been accounted for by reference to AASB 2 *Share Based Payments* as a deemed issue of shares. Under this scenario, Department 13 LLC is deemed to be the acquirer and D13 International is deemed to be the subsidiary. Applying the reverse acquisition method of accounting, following the acquisition, the consolidated financial statements are required to represent the continuation of the financial statements of Department 13 LLC from the date of acquisition.

The impact of the reverse acquisition on each of the primary statements is as follows:

- **Consolidated Statement of Financial Position:** the 30 June 2016 consolidated statement of financial position represents both D13 International (formerly Kunene Resources Limited) and Department 13 LLC. The 30 June 2015 statement of financial position represents the position of Department 13 LLC at 30 June 2015.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

- **Consolidated Statement of Profit or Loss and Other Comprehensive Income:** the 30 June 2016 consolidated statement of profit or loss and other comprehensive income comprises 12 months activities of Department 13 LLC and activity for D13 International from the acquisition date on 18 December 2015. The 30 June 2015 statement of profit or loss and other comprehensive income comprises 12 months of Department 13 LLC activity only.
- **Consolidated Statement of Changes in Equity:** The 30 June 2016 consolidated statement of changes in equity comprises of 12 months activities of Department 13 LLC and activity for D13 International from the acquisition date on 18 December 2015 and transactions with equity holders for the period. The 31 December 2014 statement of changes in equity comprises changes in equity for the 6 month period of Department 13 LLC only.
- **Consolidated Statement of Cash Flows:** The 30 June 2016 consolidated statement of cash flows comprises the cash transactions of Department 13 LLC and activity for D13 International from the acquisition date on 18 December 2015. The 30 June 2015 statement of cash flows comprises of 12 months of Department 13 LLC cash transactions only.

(b) Foreign currency translation

(i) *Functional currency*

Items included in the financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency').

The functional currency of the Company is Australia dollars (AU\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

(ii) *Presentation currency*

The financial statements are presented in Australian dollars, which is the Group's presentation currency.

Functional currency balances are translated into the presentation currency using the exchange rates at the balance sheet date. Value differences arising from movements in the exchange rate is recognised in the statement of comprehensive income.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest income is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rates which is the rate that exactly discounts the estimated future cash receipts over the expected future life of the financial asset.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Income tax

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

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

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

Current and deferred income tax expense (income) is charged or credited directly to 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 assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

With respect to land and buildings measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

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.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(e) Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

(f) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(h) Trade and other receivables

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

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

(i) Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Other receivables are generally due for settlement within 30 days.

Collectability of other receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance made for doubtful debts is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment include financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

The amount of the impairment loss is recognised in the Consolidated Statement of Comprehensive Income as 'impairment expenses'. When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(j) Trade and other payables

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

(k) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

(l) Employee benefits

1. Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

2. Retirement benefit obligations

The Group does not maintain a superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for US resident employees to complying pension funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(m) Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity as a deduction proceeds net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(n) Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by management to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

Depreciation is calculated over the estimated useful life of the assets as follows:

Plant and equipment – 1 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised immediately in profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

(o) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(p) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(q) Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(r) New, revised or amending Accounting Standards and Interpretations adopted

At the date of authorisation of the financial statements the following standards and interpretations have been applied where applicable;

- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C: Financial Instruments)
- AASB 2014-1 Amendments to Australian Accounting Standards (Part E: Financial Instruments)
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality
- AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2015

1 Summary of significant accounting policies (continued)

(s) New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Standards and Interpretations listed below were on issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<p><i>AASB 9 'Financial Instruments' (December 2014)</i></p> <p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The directors do not anticipate that the adoption of AASB 9 will have a significant impact on the Group's financial instruments.</p>	1 January 2018	30 June 2019
<p>AASB 15 Revenue from Contracts with Customers</p> <p>AASB 15:</p> <ul style="list-style-type: none"> • Replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations: <ul style="list-style-type: none"> ○ establishes a new revenue recognition model ○ changes the basis for deciding whether revenue is to be recognised over time or at a point in time ○ provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing) ○ expands and improves disclosures about revenue <p>The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2019 includes:</p> <ul style="list-style-type: none"> • Change in timing of income recognition depending on performance consideration in the Group's contracts • Change in income measurement for possible variable consideration in the Group's contracts 	1 January 2018	30 June 2019

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

<p><i>AASB 16 Leases</i></p> <p>AASB 16:</p> <ul style="list-style-type: none"> • Replaces AASB 117 Leases and some lease-related Interpretations • requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • largely retains the existing lessor accounting requirements in AASB 117 • requires new and different disclosures about leases <p>When this Standard is first adopted for the year ending 30 June 2020, there will be no material impact on the transactions and balances recognised in the financial statements.</p>	1 January 2019	30 June 2020
<p><i>AASB 2014-1 Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14)</i></p> <p>The amendments to AASB 116 prohibit the use of a revenue based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.</p> <p>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.</p>	1 January 2016	30 June 2017
<p><i>AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i></p> <p>The amendments to AASB 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in AASB 3 Business Combinations, should:</p> <ol style="list-style-type: none"> 1. Apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not re-measured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and 	1 January 2016	30 June 2017

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Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

<p>2. Provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards.</p> <p>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.</p>		
<p><i>AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15</i></p> <p>AASB 2014-5 incorporates the consequential amendments arising from the issuance of AASB 15.</p> <p>Refer to the section on AASB 15 above.</p>	1 January 2018	30 June 2019
<p><i>AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i></p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9.</p> <p>Refer to the section on AASB 9 above.</p>	1 January 2018	30 June 2019
<p><i>AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i></p> <p>The amendments introduce the equity method of accounting as one of the options to account for an entity’s investments in subsidiaries, joint ventures and associates in the entity’s separate financial statements.</p> <p>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.</p>	1 January 2016	30 June 2017
<p><i>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p> <p>The amendments address a current inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures. The amendments clarify that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business, as defined in AASB 3 Business Combinations.</p> <p>This amendment effectively introduces an exception to the general requirement in AASB 10 to recognise full gain or loss on the loss of control over a subsidiary. The exception only applies to the loss of control over a subsidiary that does not contain a business, if the loss of control is the result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Corresponding amendments have also been made to AASB 128 (2011).</p>	1 January 2018	30 June 2019

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Notes to the Financial Statements
For the Year Ended 30 June 2016

<p>When these amendments are first adopted for the year ending 30 June 2019, there will be no material impact on the financial statements.</p>		
<p><i>AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle</i></p> <p>These amendments arise from the issuance of Annual Improvements to IFRSs 2012-2014 Cycle in September 2014 by the IASB. Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.</p> <p>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.</p>	<p>1 January 2016</p>	<p>30 June 2017</p>
<p><i>AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i></p> <p>The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments:</p> <ul style="list-style-type: none"> • clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information • clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated • add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position • clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order • remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy <p>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.</p>	<p>1 January 2016</p>	<p>30 June 2017</p>

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Notes to the Financial Statements
For the Year Ended 30 June 2016

<p><i>AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15</i></p> <p>AASB 2015-8 amends the mandatory application date of AASB 15 Revenue from Contracts with Customers so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017. It also defers the consequential amendments that were originally set out in AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.</p> <p>When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.</p>	<p>1 January 2017</p>	<p>30 June 2018</p>
<p><i>AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i></p> <p>AASB 2015-9 inserts scope paragraphs into AASB 8 Operating Segments and AASB 133 Earnings per Share in place of application paragraph text in AASB 1057. In July and August 2015, the AASB reissued AASB 8, AASB 133 and most of the Australian Accounting Standards that incorporate IFRSs to make editorial changes. The application paragraphs in the previous versions of AASB 8 and AASB 133 covered scope paragraphs that appear separately in the corresponding IFRS 8 and IAS 33. In moving those application paragraphs to AASB 1057 when AASB 8 and AASB 133 were reissued in August, the AASB inadvertently deleted the scope details from AASB 8 and AASB 133. This amending Standard puts the scope details into those Standards, and removes the related text from AASB 1057. There is no change to the requirements or the applicability of AASB 8 and AASB 133.</p> <p>When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.</p>	<p>1 January 2016</p>	<p>30 June 2017</p>
<p><i>AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i></p> <p>This Standard defers the mandatory application date of amendments to AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures that were originally made in AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. The amendments have been deferred as the IASB is planning to address them as part of its longer term Equity Accounting project. However, early application of the amendments is still permitted.</p> <p>Refer to the section on AASB 2014-10 above.</p>	<p>1 January 2016</p>	<p>30 June 2017</p>

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Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

<p><i>AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses.</i></p> <p>AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.</p> <p>When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.</p>	1 January 2017	30 June 2018
<p><i>AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i></p> <p>AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.</p> <p>When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.</p>	1 January 2017	30 June 2018
<p><i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i></p> <p>The amendments clarify the application of IFRS 15 in three (3) specific areas to reduce the extent of diversity in practice that might otherwise result from differing views on how to implement the requirements of the new standard. They will help companies: 1 Identify performance obligations (by clarifying how to apply the concept of ‘distinct’); 2 Determine whether a company is a principal or an agent in a transaction (by clarifying how to apply the control principle); 3 Determine whether a licence transfers to a customer at a point in time or over time (by clarifying when a company’s activities significantly affect the intellectual property to which the customer has rights). The amendments also create two (2) additional practical expedients available for use when implementing IFRS 15: 1 For contracts that have been modified before the beginning of the earliest period presented, the amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations. 2 Companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented. The AASB is expected to publish the equivalent Australian amendments in quarter 2 of 2016.</p> <p>When these amendments are first adopted for the year ending 30 June 2019, there will be no material impact on the financial statements.</p>	1 January 2018	30 June 2019

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Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Summary of significant accounting policies (continued)

(t) Annual report differences from lodged Appendix 4E

Adjustments have been made to the 2016 financial statements subsequent to the lodgement of the Appendix 4E on 31 August 2016. The below is a summary of the differences between the financial statements contained in the Annual Report and the lodged Appendix 4E.

	Annual Report \$	Lodged Appendix 4E \$	Difference \$
Loss after income tax	(6,759,804)	(6,759,804)	-
Net assets	2,269,069	2,269,069	-
Equity			
Contributed equity ¹	8,581,846	9,000,166	(418,320)
Other contributed equity ¹	418,320	-	418,320
Total equity	2,269,069	2,269,069	-

¹ Value attributable to Performance Shares issued have been reallocated to Other Contributed Equity to distinguish their nature from ordinary share capital

2 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

License and patent expenses

There is a degree of judgement required in respect of the capitalisation of patent costs and the future commercial application thereof. The Directors have adopted a prudent approach and all patent costs incurred have been expensed.

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 at which 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 liabilities within the next annual reporting period but may impact profit or loss and equity.

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**Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016**

	For the Year Ending 30 June 2016	For the Year Ending 30 June 2015
	\$	\$
3 Revenue and other income		
Revenue from continuing operations		
Rendering of services	394,501	398,865
	<u>394,501</u>	<u>398,865</u>

4 Business Combinations

	Country of Incorporation	Percentage Owned
Department 13 International Ltd (formerly Kunene Resources Limited)	Australia	100%
- Legal parent, accounting subsidiary		

On 18 December 2015, D13 International wholly acquired Department 13 LLC. As noted in note 1(a), the acquisition was treated as a reverse acquisition as per AASB 3 Business Combinations.

	2016 \$
<i>Consideration transferred</i>	
Shares and performance shares issued (see note 14)	2,262,588
	<u>2,262,588</u>

The consideration in a reverse acquisition is deemed to have been incurred by Department 13 LLC in the form of shares and options issues to shareholders of D13 International. The acquisition date fair value of the consideration transferred has been determined by reference to the determined fair value of shares agreed between Department 13 LLC and D13 International shareholders and the number of shares on issue in the D13 International prior to the acquisition.

Cost of listing

Deemed purchase consideration (non-cash equity payment)	2,262,588
Net assets acquired in Department 13 International Ltd at the date of acquisition	(800,835)
Deemed fair value of securities issued to advisors (see note 14)	1,248,180
Cost of listing	<u>2,709,933</u>

Assets and liabilities assumed at date of acquisition

Current assets	51,033
Non-current assets	850,000
Total assets	<u>901,033</u>

Current liabilities	100,198
Total liabilities	<u>100,198</u>

Net assets acquired	<u>800,835</u>
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Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

4 Business combinations (continued)

	2016 \$
<i>Net cash inflow on acquisition of subsidiaries</i>	
Consideration paid in cash	-
Less: cash and cash equivalent balances acquired	4,562
	<u>4,562</u>

	For the Year Ending 30 June 2016 \$	For the Year Ending 30 June 2015 \$
5 Income tax expense		
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	<u>(6,759,804)</u>	(65,650)
Tax at the Australian tax rate of 30% (2015 - 30%)	<u>(2,027,941)</u>	(19,695)
<i>Add tax effect of:</i>		
- Other non-allowable items	820,438	-
Carried forward tax benefit not recognized in the current year	<u>1,207,503</u>	19,695
Total income tax expense	<u>-</u>	<u>-</u>

The Group has carry forward tax losses related to international operations of approximately \$4,137,599 (2015: \$112,588), which will generally expire at various dates in the next 20 years. Further, such losses are also subject to change of ownership provisions. Accordingly, some or all of the international losses may be limited in future periods or may expire before being able to be applied to reduce future foreign income tax liabilities.

The benefit of these losses will only be recognised where it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

	As at 30 June 2016 \$	As at 30 June 2015 \$
6 Cash and cash equivalents		
Cash at bank and in hand	2,513,371	39,396
	<u>2,513,371</u>	<u>39,396</u>
7 Trade and other receivables		
CURRENT		
Trade receivables	68,709	22,308
Prepayments	27,189	-
Other receivables	18,645	-
	<u>114,543</u>	<u>22,308</u>
NON-CURRENT		
Deposits and bonds paid	44,974	-
	<u>44,974</u>	<u>22,308</u>
	<u>159,517</u>	<u>22,308</u>
8 Property, plant and equipment		
Office equipment at cost	152,571	10,988
Accumulated depreciation	(20,522)	(4,976)
Closing balance	<u>132,049</u>	<u>6,012</u>
Balance at beginning of the year	6,012	-
Additions	141,583	5,422
Depreciation	(15,655)	590
Effect of foreign currency translation on opening balances	109	-
Balance at end of year	<u>132,049</u>	<u>6,012</u>
9 Trade and other payables		
CURRENT		
Trade payables	132,138	77,080
Payroll liabilities	244,579	-
Other payables	79,150	-
Share applications	80,000	-
	<u>535,867</u>	<u>77,080</u>

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Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

10 Commitments

Operating Lease

The Group leases an office under an operating lease. The future minimum lease payments are as follows:

	Minimum Lease Payments Due			Total AUD
	Within 1 Year AUD	1-5 Years AUD	After 5 Years AUD	
30 June 2016	84,328	623,103	-	707,431

Lease expense during the period amounted to \$74,443 (2015: \$-) representing the minimum lease payments.

11 Contributed equity

(a) Share capital

	As at 30 June 2016		As at 30 June 2015	
	No. of Shares	\$	No. of Shares	\$
Ordinary shares				
At the beginning of the year	38,903,500	29,258	38,903,500	29,258
Issue of shares pursuant to public offer	60,000,000	6,000,000	-	-
Issue of shares as deemed consideration to acquire Department 13 International Ltd	251,600,000	2,262,588	-	-
Shares issued to advisors in Department 13 LLC transaction at fair value	65,000,000	650,000	-	-
Share issue expenses	-	(360,000)	-	-
	415,503,500	8,581,846	38,903,500	29,258

Ordinary shares

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the Company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

(b) Other contributed equity

	As at 30 June 2016		As at 30 June 2015	
	No. of Performance Shares	\$	No. of Performance Shares	\$
Performance shares				
At the beginning of the year	-	-	-	-
Performance issued to settle liabilities prior to the Department 13 LLC transaction	84,000,000	418,320	-	-
Issue of performance shares to acquire Department 13 LLC	200,000,000	-	-	-
	284,000,000	418,320	-	-

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

11 Contributed equity (continued)

Performance shares convert into Ordinary shares at 1:1 ratio in the event that the 20 trading day VWAP of the Company's Shares as traded on ASX equalling or exceeding \$0.05 and one of the following other milestones is achieved within 3 years from the date of issue:

1. D13 receives more than \$1m in aggregate revenues from Commercial Sales of Drone Defense products;
2. D13 receives more than \$1m in aggregate revenues from sales or licensing agreements for any of the Technologies with a National or State Government Agency or significant multinational corporation;
3. D13 receives more than \$1m in aggregate revenues from sales or license agreements for any of the Technologies with a supplier to a National or State government agency;
4. D13 receives more than \$1m in aggregate revenues from joint venture or distribution agreements with a large network or mobile company or a supplier to law enforcement, defense or military;
5. the cumulative value of grants provided to D13 equals or exceeds US\$3m; or
6. the Company (or a spin off entity of the Company) lists on the NASDAQ, or NYSE Markets stock exchanges.

(d) Options

As at the date of this report, the following options over unissued ordinary shares were on issue:

1. 2,100,000 unlisted options expiring 15 September 2016, exercisable at 40 cents each;
2. 40,000,000 unlisted options expiring 18 December 2020, exercisable at 2.5 cents each.

For details on value of options issued, please refer to note 12.

(e) Performance rights

As at the date of this report, the following performance rights over unissued ordinary shares were on issue:

1. 51,250,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio subject to Milestone completion.

The Performance Rights will vest and convert into ordinary Shares in the event that the 20 trading day VWAP of the Shares as traded on ASX equals or exceeds \$0.05 and one of the following other milestones is achieved within 3 years from the date of issue:

1. D13 commences first commercial sales of Drone Defense products;
2. D13 enters into a licensing agreement for any of the Technologies with a National or State Government Agency or significant multinational corporation;
3. D13 enters into a license agreement for any of the Technologies with a supplier to a National or State government agency;
4. D13 enters into a joint venture agreement with a large network or mobile company or a supplier to law enforcement, defense or military;
5. the cumulative value of grants provided to D13 equals or exceeds US\$3m; or
6. the Company (or a spin off entity of the Company) lists on the NASDAQ, OTC QX or NYSE Markets.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

	As at 30 June 2016 \$	As at 30 June 2015 \$
12 Reserves		
Options reserve	179,860	-
Foreign currency translation reserve	(100,829)	1,702
	69,031	1,702
(a) Options reserve		
Balance beginning of financial year	-	-
Fair value of options issued during the year	179,860	-
Balance at end of the financial year	179,860	-
(b) Foreign currency translation reserve		
Balance beginning of financial year	1,702	1,352
Movement	(112,531)	350
Balance at end of the financial year	(110,829)	1,702

13 Segment information

The Group operates in one segment being technology development specialising in drone defence, cyber security and RF software communications and networking. Department 13 LLC is based in Virginia, USA.

This operating segment is monitored by the Group's chief operating decision makers and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision makers of the Group are the Chief Executive Officer and Chief Operating Officer.

The following tables present certain asset and liability information regarding geographical segments for the years ended 30 June 2016 and 30 June 2015.

Segment performance

	Australia		USA		Total	
	June 2016 \$	June 2015 \$	June 2016 \$	June 2015 \$	June 2016 \$	June 2015 \$
External sales	-	-	394,501	398,865	394,501	398,865
Total segment revenue	-	-	394,501	398,865	394,501	398,865
Segment operating result	(364,509)	-	(6,410,950)	(66,240)	(6,775,459)	(66,240)
EBITDA	(364,509)	-	(6,410,950)	(66,240)	(6,775,459)	(66,240)
Depreciation	-	-	15,655	590	15,655	590
Finance costs	-	-	-	-	-	-
Loss before income tax expense	(364,509)	-	(6,395,295)	(65,650)	(6,759,804)	(65,650)
Income tax expense	-	-	-	-	-	-
Loss after income tax expense	(364,509)	-	(6,395,295)	(65,650)	(6,759,804)	(65,650)
<i>Assets and liabilities</i>						
Segment assets	391,101	-	2,413,835	67,716	2,804,937	67,716
Segment liabilities	206,791	-	304,217	77,080	511,008	77,080

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

14 Share based payments

During the twelve (12) months to 30 June 2016, the following transactions were equity settled by the Group:

Date	Description	No of Securities	Value per security \$	Total \$
18/12/2015	Issue of shares as deemed consideration to acquire Department 13 International Ltd	200,000,000 Ord shares	NA	2,262,588
18/12/2015	Issue of performance shares as deemed consideration to acquire Department 13 LLC	200,000,000 Perf shares		
18/12/2015	Issue of ordinary shares to brokers for advisory services	65,000,000 Ord shares	0.0100	650,000
18/12/2015	Issue of performance shares to brokers for advisory services	84,000,000 Perf shares	0.0050	418,320
18/12/2015	Issue of options to brokers for advisory services	40,000,000 options	0.0045	179,860
18/12/2015	Issue of performance rights directors	51,250,000 rights ¹	-	-

The following table presents information on the fair values of securities issued in the financial period up to the Acquisition date by D13 International but were eliminated on consolidation with Department 13 LLC:

18/12/2015	Issue of shares to settle loans	42,000,000 Ord shares	0.0250	1,050,000
18/12/2015	Issue of shares as settlement of outstanding directors' benefits	4,600,000 Ord shares	0.0250	115,000
				1,165,000

Notes:

¹ Performance rights issued to directors in the financial period have not yet vested.

15 Reconciliation of profit after income tax to net cash outflow from operating activities

	For the Year Ending 30 June 2016 \$	For the Year Ending 30 June 2015 \$
Loss for the year	(6,759,804)	(65,650)
Depreciation expense	15,655	590
Cost of listing	2,709,933	-
Impairment expense	47,677	-
Effects of foreign currency translation	(192,340)	-
Other non-cash transactions	-	50,193
<i>Change in operating assets and liabilities</i>		
(Increase)/Decrease in trade and other receivables	(90,727)	25,112
Increase/(Decrease) in trade and other payables	358,588	67,182
Net cash inflow from operating activities	(3,911,018)	27,235

**Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016**

16 Financial risk management

(a) 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

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on an ongoing basis. The group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group as it only has a limited number of customers at this stage of its development.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

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

The maximum exposure to credit risk at balance date is as follows:

	As at 30 June 2016	As at 30 June 2015
	\$	\$
Cash and cash equivalents	2,513,371	39,396
Trade and other receivables	159,516	22,308

Liquidity risk

The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required.

Foreign exchange risk

Most of the Group's transactions occur in the USA and are predominantly denominated in USD. Cash and cash equivalents used to fund working capital are mainly held in US bank accounts.

The Group is exposed to foreign exchange risk when capital is raised in AUD and then transferred to the US subsidiary. The Group closely monitors foreign currency movements at such times but does not use hedging instruments to manage such risk.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

16 Financial risk management (Continued)

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into \$AUD at the closing rate:

	Short Term Exposure \$	Long Term Exposure \$
30 June 2016		
Financial assets	2,236,812	44,974
Financial liabilities	304,217	-

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the \$USD/\$AUD exchange rate 'all other things being equal'. It assumes a +/- 10% change of the \$AUD/\$USD exchange rate for the year ended at 30 June 2016. This percentage has been determined based on the average market volatility in exchange rate in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the \$AUD had strengthened/weakened against the \$USD by 10% then this would have had the following impact:

	Profit for the Year		Equity	
	+ 10%	-10%	+ 10%	-10%
30 June 2016	197,757	(197,757)	197,757	(197,757)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

(b) Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement period of all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

	Weighted average interest rate	Non-interest bearing	Floating interest rate	Fixed interest rate maturing within 1 year	Total
	2016 %	2016 \$	2016 \$	2016 \$	2016 \$
Financial Assets					
Cash and cash equivalents	0.75%	-	2,513,371	-	2,513,371
Trade and other receivables	-	159,516	-	-	159,516
Total financial assets		159,516	2,513,371	-	2,672,887
Financial Liabilities					
Trade and other payables	-	517,598	18,269	-	535,867
Total financial liabilities		517,598	18,269	-	535,867

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016

16 Financial risk management (Continued)

	Carrying amount	Contractual cash flow due 1 to 3 months	Contractual cash flow due 3 months to 1 year	Contractual cash flow due 1 to 5 years
	2016	2016	2016	2016
	\$	\$	\$	\$
Financial Assets				
Receivables	159,517	114,543	-	44,974
Total	159,517	114,543	-	44,974
Financial liabilities				
Accounts payable	132,138	132,138	-	-
Other payables	403,429	284,796	-	118,933
Total	535,867	416,934	-	118,933

(c) Net fair values

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and notes to the financial statements.

(d) Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. The effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar and Euro with all other variables remaining constant, is not expected to be significant.

17 Earnings per share

	For the Year Ended 30 June 2016	For the Year Ended 30 June 2015
	Cents	Cents
From continuing operations		
Basic earnings per share	(2.80)	(0.19)
Diluted earnings per share	(2.80)	(0.19)
Weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
- Basic earnings per share	241,388,432	33,667,123
- Diluted earnings per share	241,388,432	33,667,123
Weighted average number of other securities outstanding not included in diluted EPS calculations as the securities are anti-dilutive in nature	377,350,000	37,000,000

The loss used to calculate earnings per share was \$6,759,804 (2015: \$65,650).

**Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2016**

18 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report.

(b) Transactions with other related parties

There were no related part transactions aside from those listed in the Remuneration Report.

19 Events occurring after the balance sheet date

- Launch of MESMER-EX, a new Drone intelligence and Forensic Service;
- A\$6 million Private Placement.

20 Parent entity disclosures

	2016
	\$
Department 13 International Ltd	
Financial position	
Assets	
Total current assets	391,102
Total non-current assets	13,136,194
Total assets	<u>13,527,296</u>
Liabilities	
Total current liabilities	<u>206,791</u>
Total liabilities	<u>206,791</u>
Equity	
Contributed equity	18,521,260
Other contributed equity	1,414,320
Reserves	365,731
Accumulated losses	<u>(6,980,806)</u>
Total equity	<u>13,320,505</u>
Financial performance	
Loss for the year	(364,509)
Other comprehensive income	<u>-</u>
Total comprehensive loss	<u>(364,509)</u>

**Department 13 International Ltd
Directors' Declaration
For the Year Ended 30 June 2016**


Declaration by Directors

The directors of the Company declare that, in the opinion of the directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the financial position and performance of the Company and the Group; and
 - (ii) complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;
- (b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.
- (d) there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:



Jonathan Hunter
Chief Executive Officer and Chairman
30 September 2016

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
DEPARTMENT 13 INTERNATIONAL LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Department 13 International Limited, which comprises the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Department 13 International Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Department 13 International Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 13 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion the Remuneration Report of Department 13 International Ltd for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

RSM

RSM AUSTRALIA PARTNERS


G N Sherwood
Partner

Sydney, NSW
Dated: 30 September 2016

Department 13 International Ltd
Shareholder Information

Spread of Shareholders

At 28 September 2016, there were 1,307 holders of Shares. The shareholders were entitled to one vote for each Share held.

Spread of Holdings	No of Holders	No of Units	% of Total Issued Capital
1 – 1,000	16	3,594	0.00
1,001 – 5,000	90	389,820	0.08
5,001 – 10,000	266	2,374,834	0.51
10,001 – 100,000	605	26,161,950	5.59
100,001 and over	330	439,206,715	93.82
Total	1,307	468,136,913	100

There were 14 shareholders holding less than a marketable parcel of 1,594 shares as at 28 September 2016.

Substantial Shareholders

The Company's register of substantial shareholders recorded the information as at 28 September 2016.

Top 20 Holdings as at 28 September 2016

Holder Name	Balance at 28 September 2016	%
JONATHAN ANDREW HUNTER	41,600,000	8.88
ROBI SEN	40,000,000	8.54
ROGER CHARLES DAVIES	33,200,000	7.09
PAUL MCCARTHY	30,800,000	6.58
NICHOLAS CLARK	29,250,000	6.24
GAVIN JOHN REZOS & JOANNE ELLEN REZOS	23,475,000	5.01
BRYAN HALFPAP	21,360,000	4.56
STEVEN J SHATTIL	20,800,000	4.44
BEN SMITH	20,000,000	4.27
BAYARD WILLIAM JOHN REZOS <GLENCONNER>	10,000,000	2.14
UBS NOMINEES PTY LTD	9,399,082	2.01
PHEAKES PTY LTD <SENATE A/C>	5,750,000	1.23
CITICORP NOMINEES PTY LIMITED	5,330,416	1.14
METIS PTY LTD	3,500,000	0.75
DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND A/C>	3,400,000	0.73
JINDABYNE CAPITAL PTY LTD <PROVIDENCE EQUITY A/C>	3,000,000	0.64
MR ROBERT PAUL MARTIN & MRS SUSAN PAMELA MARTIN <RP & SP MARTIN SUPER A/C>	3,000,000	0.64
GOLDBONDSUPER PTY LTD	3,000,000	0.64
MR PETER CHARLES PRITCHARD FARRIS & MRS SUSAN MARY PATRICIA FARRIS <THE PETER FARRIS S/F A/C>	2,625,000	0.56

CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	2,438,058	0.52
SEQUOI NOMINEES PTY LTD <SEQUOI A/C>	2,400,000	0.51
QUINTERO PTY LTD	2,166,667	0.46
PRW INVESTMENTS PTY LTD	2,166,667	0.46
WESTERN OVAL PTY LTD <WESTERN OVAL A/C>	2,166,667	0.46
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	2,075,564	0.44
TOTAL	322,903,121	68.94

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