

Appendix 4D
For the half-year ended 30 June 2020

DroneShield Limited
ABN 26 608 915 859

1. Reporting period

The financial information contained in the attached consolidated financial report is for the half-year ended 30 June 2020. The previous corresponding period was the half-year ended 30 June 2019.

Results for announcement to the market				
	Up/ Down	% Movement		2020 \$
Revenue from continuing activities	Up	45%	to	3,593,897
Loss from continuing activities after tax attributable to members	Down	56%	to	(1,171,742)
Net loss attributable to members	Down	56%	to	(1,171,742)
Dividends: No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

2. Commentary related to the above results

Refer to Directors' Report in the attached half-year report.

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

30 June 2020: \$0.03; 31 December 2019: \$0.03.

4. There was no change in control during the half-year ended 30 June 2020

5. There were no payments of dividends during the half-year

6. There is no dividend reinvestment plan in operation

7. There are no associates or joint venture entities

8. This report is based on the consolidated financial report which has been reviewed by HLB Mann Judd Assurance (NSW) Pty Ltd.

The information contained within this report is to be read in conjunction with DroneShield's 2019 Annual Report and any announcements to the market during the half-year period ending 30 June 2020. Further information regarding the Group and its business activities can be obtained by visiting the Group's website at www.droneshield.com

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DRONESHIELD

Half Annual Report

For the Half Year Ended
30 June 2020

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*Image: DroneShield DroneSentry™
integrated detect-and-defeat system*

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

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Corporate Information

Directors & Management

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

Registered Office

Level 5, 126 Phillip St
Sydney, NSW 2000
Australia

Telephone: +61 2 9995 7280

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

Auditors

HLB Mann Judd Assurance (NSW) Pty Ltd
Level 19, 207 Kent Street
Sydney, NSW 2000
Australia

Bankers

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

Westpac
275 Kent Street
Sydney, NSW 2000
Australia

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

Solicitors

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

Steinepreis Paganin
16 Milligan Street
Perth, WA 6000
Australia

Share Registry

Automic Pty Ltd t/a Automic Registry Services
267 St Georges Terrace
Perth WA 6000
Australia

Enquiries (within Australia): 1300 288 664
Enquiries (outside Australia): +61 8 9324 2099

Stock Exchange Listing

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

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Directors' Report

Your Directors present their report for DroneShield Limited (the "Company") and its controlled entities (collectively "the Group") for the half-year ended 30 June 2020.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name	Position	Effective date
Peter James	Independent Non-Executive Chairman	Executive Chairman until 24 January 2017. Returned to Independent Non-Executive Chairman 24 January 2017.
Jethro Marks	Independent Non-Executive Director	Appointed 16 January 2020.
Robert Clisdell	Non-Executive Director	Resigned 16 January 2020.
Oleg Vornik	CEO and Managing Director	Appointed as CEO and Managing Director 24 January 2017.

Business Overview

Based in Sydney (Australia), Virginia (USA) and London (UK), DroneShield is a global leader in counterdrone technologies. The Group has developed and continues to develop security solutions that protect people, organisations and critical infrastructure from intrusion of commercial/consumer grade drones.

The Group's unique products use proprietary software and hardware to detect drones in a combination of radio frequency (RF), radar, optical camera and thermal camera based systems and instantly alert users in real-time through multiple channels ensuring any potential threats can be addressed, and interdict drones using electronic warfare (EW) technologies.

The Group's product lines currently include the following:

- DroneGun Tactical™ – a portable tactical rifle-shaped drone disruptor;
- DroneGun MKIII™ – a pistol-shaped drone disruptor;
- DroneNode™ – a briefcase-style covert drone disruptor;
- DroneCannon RW™ – a drone disruptor for use on remote weapon stations;
- RfPatrol MKII™ – a body-worn passive RF drone detector;
- DroneSentinel™ – a multi-sensor (RF, radar and optical and thermal camera) drone detection system;
- DroneSentry-X™ – a vehicle based detect-and-defeat system; and
- DroneSentry™ – an integrated detect-and-defeat system, combining the DroneSentinel™ module with RF disruption.

Review of Operations and Financial Results

The Company has announced an all-time record quarter of customer cash receipts and grants for 2Q20 of \$2.1 million. The Group achieved revenue from customers of \$3.07 million for the 1H20 half-year, an increase of 29% relative to the prior half-year.

The net loss after tax for the half-year was \$1.17 million (corresponding 2019 half year: loss of \$2.67 million).

The cash receipts for orders received during the period, but not yet fulfilled, are recognised under Other Liabilities on the Statement of Financial Position as deferred revenue.

Key achievements for the half-year to 30 June 2020 included:

- Recent contract wins and successful trials with high profile marquee customers, across a range of DroneShield products:
 - EU Police 4-year framework agreement for DroneGun Tactical™ units
 - European Ministry of Defence purchase of RadarZero™ and DroneShieldComplete™
 - US State Department order for RfPatrol MKII™, DroneGun MKIII™, and DroneNode™
 - first fixed site deployment for detect-and-defeat DroneSentry™ system for the U.S. Air Force (currently delivering)
 - Airport deployment of DroneSentinel; with Deutsche Telekom, in a lead up to a major tender for European airports in late 2020¹
 - Purchases of RfPatrol MKII™ and DroneGun Tactical™ units by Australian and NZ militaries.
- Continuing to move into the SaaS space through the use of subscription pricing models on a range of its products.
- Rapid development and enhancement of DroneShield technologies, including RfPatrol MKII™, DroneSentry-X™, and Artificial Intelligence/Machine Learning software engines for its RF and Optical sensors. While continuing to focus primarily on the counterdrone space, these developments position the Company for a broader set of defence and security contracts in the Electronic Warfare, sensing, AI and Command-and-Control segments. DroneShield continues to lodge patents to protect its intellectual property where it deems appropriate.
- Ramping up supply chain and manufacturing capabilities, including opening of a new manufacturing facility in Western Sydney.

The Company continues to work towards the execution of a formal contract in relation to the previously announced \$70-\$85 million Middle Eastern bid¹. Its near-term high conviction pipeline includes a number of additional multi-million-dollar opportunities globally.

While being affected by the COVID-19 situation, diversified industry verticals and increased military spending are assisting to mitigate the impact:

- While some procurements processes have been delayed, the crisis did not result in any of the customer orders for DroneShield's products being cancelled, nor did it result in any potential customers declining to purchase the Company's products.
- Majority of customers are governmental agencies resulting in a lower credit risk in the current environment compared to that faced by businesses whose customers are private enterprises and consumers.
- Military and Government agencies remain substantially unaffected by COVID-19 and have experienced an increase in budget driven by macroeconomic tensions and as a means of additional Government investment to stimulate the economies.
- Airports vary considerably depending on region. European focus on counterdrone deployments continues, substantially funded by the Governments.
- Stadiums and Events have largely slowed down as a result of COVID-19, however target verticals such as Oil & Gas, Mining, Law Enforcement and Maritime & Vessels all substantially unaffected, with budgets either unaffected or increased in recent months.

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

At a macro level, the counterdrone market continues to rapidly expand, expecting to reach US\$4.5 billion by 2026². Rising international tensions are resulting in further increases in security and defence budgets. DroneShield is positioned as the pioneer and leader in the space, with a number of differentiated products.

The Company continues to receive support from the Australian Government including funding under the R&D Tax Incentive Grant scheme and the Export Market Development Grant scheme, introductions to key defence prime relationships and generally promoting DroneShield globally through the Australian Government's network of Austrade offices around the globe, including via virtual tradeshows in the current environment.

DroneShield's engagement with larger defence "prime contractors" and security integrators continues to increase as the anti-drone arms race is increasing. This includes the Company being a subcontractor on a number of tender submissions by the defence primes, and broader discussions on a range of potential corporate activities.

The Company is in a secure financial position following the \$7.5 million placement completed earlier this month, and the anticipated proceeds from the current Share Purchase Plan under way. Together with the \$4 million cash as of 30 June 2020, this funding enables the Company to substantially scale up its sales and engineering teams, its demo/sale inventory and its manufacturing processes, to pursue rapidly emerging significant opportunities across US, European, Australian, Asian and other opportunities.

Significant Events after the Balance Date

Subsequent to 30 June 2020, the following occurred;

- The Company issued the following shares:
 - o In August 2020, the Company issued 60,000,000 shares in a Share Placement. The issue price was \$0.125, and the total cash received from the placement of shares was \$7,500,000. Under the terms of the Placement, Lead Manager Peloton Capital Pty Limited will receive an aggregate of 5,000,000 unlisted options (which expire in 3 years and has an exercise price of \$0.25). The issue of the 5,000,000 Options is subject to shareholder approval, which will be sought at the next shareholders' meeting.
- In August 2020, the Company repaid the R&D Loan of \$600,000.

No other matter or circumstance has arisen since 30 June 2020 which has significantly affected or may significantly affect:

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 6.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
28 August 2020

² Grand View Research: <https://www.grandviewresearch.com/press-release/global-anti-drone-market>



Auditor's Independence Declaration to the directors of DroneShield Limited:

As lead auditor for the review of the financial report of DroneShield Limited for the half-year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of DroneShield Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'A G Smith'.

**Sydney, NSW
28 August 2020**

**A G Smith
Director**

hlb.com.au

HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215

Level 19, 207 Kent Street Sydney NSW 2000 Australia

T: +61 (0)2 9020 4000 **F:** +61 (0)2 9020 4190 **E:** mailbox@hlbnsw.com.au

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	30 June 2020 \$	30 June 2019 \$
Revenue	2	3,593,897	2,475,144
Other income (losses)	3	234,095	83,844
Cost of sales		(962,846)	(1,157,256)
Product development expense		(1,493,470)	(1,400,836)
Sales and customer service expense		(880,868)	(833,745)
Corporate and support expense	4	(1,058,110)	(1,354,782)
Corporate governance expense	5	(204,676)	(219,721)
Share based payment expense	6	(1,283,356)	(740,410)
Loss before income tax		(2,055,334)	(3,147,762)
Income tax benefit	7	883,592	485,351
Loss after income tax		(1,171,742)	(2,662,411)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		(15,815)	(8,931)
Total comprehensive loss for the period		(1,187,557)	(2,671,342)
Basic loss per share (cents per share)	19	(0.46)	(1.43)
Diluted loss per share (cents per share)	19	(0.46)	(1.43)

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

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Consolidated Statement of Financial Position

	Note	30 June 2020 \$	31 December 2019 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	4,068,832	5,485,000
Trade and other receivables	9	3,224,624	1,581,432
Inventories	10	974,126	725,920
Total current assets		8,267,582	7,792,352
Non-current assets			
Plant, equipment and intangible assets	11	850,621	1,158,642
Right-of-use assets	12	434,883	427,579
Total non-current assets		1,285,504	1,586,221
Total assets		9,553,086	9,378,573
LIABILITIES			
Current liabilities			
Trade payables		245,377	397,993
Provisions	13	142,979	182,583
Other liabilities	14	941,598	1,666,940
Borrowings	15	731,968	32,707
Lease Liabilities	16	178,895	118,528
Total current liabilities		2,240,817	2,398,751
Non-current liabilities			
Borrowings	15	96,824	-
Lease Liabilities	16	288,502	328,709
Total non-current liabilities		385,326	328,709
Total liabilities		2,626,143	2,727,460
Net assets (deficiency)		6,926,943	6,651,113
EQUITY			
Share capital	17	21,192,638	21,012,607
Reserves		7,002,509	6,135,277
Accumulated losses		(21,268,204)	(20,496,771)
Total equity (deficiency)		6,926,943	6,651,113

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

Consolidated Statement of Changes in Equity

	Contributed equity \$	Options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2020	21,012,607	6,157,367	(22,090)	(20,496,771)	6,651,113
Transfer from option reserve to accumulated losses	-	(400,309)	-	400,309	-
<i>Transactions with owners in their capacity as owners:</i>					
Options exercised	-	-	-	-	-
Options issued	-	1,283,356	-	-	1,283,356
Contributions of equity, net of transaction costs	9,240	-	-	-	9,240
Repayment of management/ employee option exercise loan	170,791	-	-	-	170,791
	<u>180,031</u>	<u>1,283,356</u>	<u>-</u>	<u>-</u>	<u>1,463,387</u>
Exchange difference on translation of foreign operations	-	-	(15,815)	-	(15,815)
Loss for the period	-	-	-	(1,171,742)	(1,171,742)
Total comprehensive loss for the period	-	-	(15,815)	(1,171,742)	(1,187,557)
Balance at 30 June 2020	21,192,638	7,040,414	(37,905)	(21,268,204)	6,926,943
Balance at 1 January 2019	11,628,172	7,343,147	(290)	(16,908,688)	2,062,341
Transfer from option reserve to accumulated losses	-	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>					
Options exercised	-	-	-	-	-
Options issued	-	740,410	-	-	740,410
Contributions of equity, net of transaction costs	1,120,422	99,344	-	-	1,219,766
	<u>1,120,422</u>	<u>839,754</u>	<u>-</u>	<u>-</u>	<u>1,960,176</u>
Exchange difference on translation of foreign operations	-	-	(8,931)	-	(8,931)
Loss for the period	-	-	-	(2,662,411)	(2,662,411)
Total comprehensive loss for the period	-	-	(8,931)	(2,662,411)	(2,671,342)
Balance at 30 June 2019	12,748,594	8,182,901	(9,221)	(19,571,099)	1,351,175

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

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Consolidated Statement of Cash Flows

	Note	30 June 2020 \$	30 June 2019 \$
Cash flows from operating activities			
Receipts from customers		1,331,919	2,076,660
Payments to suppliers and employees		(4,425,581)	(3,445,671)
Research and Development Tax and other incentives received		1,239,361	567,935
Net cash flows from (used in) operating activities		(1,854,301)	(801,076)
Cash flows from investing activities			
Purchase of plant and equipment		(354,404)	(380,159)
Net cash flows from (used in) investing activities		(354,404)	(380,159)
Cash flows from financing activities			
Interest income on cash deposits		17,198	9,547
Proceeds from option exercise		-	-
Proceeds from share and option issue		-	-
Share issue transaction costs		-	(85,780)
Proceeds from borrowings		750,368	1,299,696
Repayment of borrowings		-	500,000
Borrowings transaction costs		(12,000)	(155,580)
Payments for lease liabilities		(67,664)	(45,634)
Repayment of management/ employee limited recourse loan		170,791	-
Net cash flows from (used in) financing activities		858,693	1,522,249
Cash and cash equivalents at beginning of period		5,485,000	1,229,499
Net increase (decrease) in cash and cash equivalents		(1,350,012)	341,014
Exchange rate adjustments to balances held in foreign currencies		(66,156)	(8,552)
Cash and cash equivalents at the end of the period	8	4,068,832	1,561,961

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

Notes to the Financial Statements

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard ("AASB") 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in the annual financial report and should be read in conjunction with the most recent annual financial report (being that for the year ended 31 December 2019), and any public announcements made by the Company during the reporting period.

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Going Concern

This consolidated financial report has been prepared on the basis that the Group will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

During the half-year ended 30 June 2020, the Group incurred losses of \$1,171,742 and net cash outflows from operating activities of \$1,854,301, with cash on hand at 30 June 2020 of \$4,068,832. At 30 June 2020, the Company has net assets of \$6,926,943 and an excess of current assets over current liabilities of \$6,026,765.

Subsequent to 30 June 2020, the Company issued 60,000,000 shares in a Share Placement. The issue price was \$0.125, and the total cash received from the placement of shares was \$7,500,000.

A cash flow forecast for the next 12 months prepared by management has indicated that the Group will have sufficient cash assets to be able to meet its debts as and when they are due, and therefore the financial statements have been prepared on a going concern basis.

(b) New accounting standards and interpretations

DroneShield has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

There are no new Accounting Standards or interpretations that have been published, but not yet mandatory, that are expected to have a material impact on the Group.

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Notes to the Financial Statements *continued*

	30 June 2020 \$	30 June 2019 \$
2. Revenue		
Subscription services	15,902	842
Hardware sales	2,960,194	2,314,435
Shipping revenue	75,949	60,164
Demonstration revenue	16,455	-
Total revenue from sales	3,068,500	2,375,441

The Group derives its revenue from the transfer of goods and services over time and at a point in time. This is consistent with the revenue information that is disclosed for each reportable segment. (see Note 21).

Timing of revenue recognition**At a point in time**

Hardware sales including shipping income

- <i>direct sales</i>	760,108	884,456
- <i>distributors</i>	2,292,490	1,490,143

Over time

Subscription services

- <i>distributors</i>	15,902	842
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Total revenue from sales

3,068,500	2,375,441
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Other revenue

Interest revenue

17,198

9,547

Other revenue

508,199

39,167

Sublease revenue

-

50,989

Total other revenue

525,397

99,703

Total revenue

3,593,897	2,475,144
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3. Other income (losses)

Awards and incentives income (Note a)

356,590

82,583

Net foreign exchange gains (losses)

(122,495)

1,261

Total other gains (losses)

234,095

83,844

Note (a): Awards and incentives income comprises of government and industry assistance including the JobKeeper scheme, payroll tax relief and ATO cashflow boost.

4. Corporate and support expense

Office costs and communication

127,890

214,295

Payroll

530,637

478,666

Legal

74,751

33,732

Travel and entertainment

5,902

68,724

Professional expenses

120,468

251,992

Other

198,462

307,373

Total corporate and support expense

1,058,110

1,354,782

Notes to the Financial Statements *continued*

	30 June 2020 \$	30 June 2019 \$
5. Corporate governance expense		
Board and Advisory Board expenses	66,770	64,996
Professional expenses	28,200	15,000
Insurance	61,679	101,248
ASX fees	12,066	24,710
Other	35,961	13,767
Total corporate governance expense	204,676	219,721

6. Options issued

During the half-year ended 30 June 2020, a number of options were issued to Directors, management and other employees of the entity. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued in January 2020. The number of options in the table below excludes options that were issued and then cancelled during the period.

	Class Q Options	Zero Price Options Note (a)	Other Options Note (b)	Total option expense for the period
No of new options	500,000	500,000		
Expiry (years)	3.45	2.87		
Exercise price (\$)	0.65	0		
Vesting period (years)	1.87	2.87		
Underlying volatility	87.7%	n/a		
Risk free interest rate	0.76%	n/a		
Calculated fair value of each option (\$)	0.0876	0.2350		
Total expense recorded for the period ended 30 June 2020 (\$)	13,302	18,310	1,251,744	1,283,356

Note (a): Zero Price ("Zepo") options are subject to the following vesting conditions being satisfied: DroneShield achieving \$20,000,000 of revenue or customer cash receipts (excluding any revenue or customer cash receipts which are applied towards satisfaction of the vesting condition attaching to the Tranche 1 Zepos; or automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction. As there is no exercise price and no near-term expectations of dividends for DroneShield, the value of the option (excluding the impact of vesting conditions) determined using Black Scholes is equivalent to the price of a DroneShield share. The value of the Options is based on the spot price of a DroneShield share on the date at which the options were issued. Based on the sales pipeline and existing orders, management estimate that the options will vest within the expiry period.

Note (b): \$1,251,744 relates to the vesting expense from options issued in prior periods, comprising option expense for Tranche 2 Zepos, Classes P and Q (issued in 2019) and Tranche 1 Zepos (issued in 2018). Refer to 2019 Annual Report for details of options issued in prior periods.

Notes to the Financial Statements *continued*

	30 June 2020 \$	30 June 2019 \$
7. Income taxes relating to continuing operations		
The components of tax recognised in profit or loss include:		
Current tax	-	-
Deferred tax	-	-
Research and Development Tax Incentive	(883,592)	(485,351)
Total tax expense/(credit)	(883,592)	(485,351)

The research and development tax incentive of \$883,592 was received in the current year in relation to expenses incurred in the 31 December 2019 financial year.

	30 June 2020 \$	31 December 2019 \$
8. Cash and cash equivalents		
Cash at bank and in hand	2,174,345	1,906,555
Short-term deposits	1,894,487	3,578,445
Total cash and cash equivalents	4,068,832	5,485,000
9. Trade and other receivables		
Trade receivables	2,680,273	602,942
Deferred sales proceeds (see Note 14)	403,287	732,095
Prepayments	141,064	246,395
Total trade and other receivables	3,224,624	1,581,432

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Age of receivables that are past due but not impaired.

60 – 90 days	2,048,771	-
>120 days	616,503	601,753

Payment for hardware sales and subscription services are due from the customer as per the terms specified in the contract.

Notes to the Financial Statements *continued*

	30 June 2020 \$	31 December 2019 \$
10. Inventories		
Work in Progress	369,325	284,897
Finished goods inventory at cost	604,801	441,023
Total Inventory	974,126	725,920

11. Plant, equipment and intangible assets

	Development equipment \$	Demonstration equipment \$	Office equipment \$	Plant & Equipment \$	Intangible Assets (software) \$	Total \$
Balance at 1 January 2020	217,637	428,364	123,109	351,900	37,632	1,158,642
Additions	112,070	60,026	11,015	4,531	-	187,642
Disposals	-	(10,216)	(6,943)	-	-	(17,159)
Transfers from (to) other fixed asset categories	(128,426)	128,426	-	-	-	-
Transfer from (to) inventory	(133,844)	(86,530)	-	-	-	(220,374)
Depreciation	-	(178,034)	(37,441)	(40,503)	(4,968)	(260,946)
Exchange differences	-	2,411	405	-	-	2,816
Balance at 30 June 2020	67,437	344,447	90,145	315,928	32,664	850,621

12. Right-of-use asset

Balance at 1 January 2020	427,579
Additions	103,257
Depreciation	(95,953)
Balance at 30 June 2020	434,883

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Notes to the Financial Statements *continued*

	30 June 2020 \$	31 December 2019 \$
13. Provisions		
Employee entitlements	142,979	164,761
Other	-	17,822
Total provisions	142,979	182,583

14. Other liabilities

Accrued expenses	99,547	413,148
Deferred Revenue		
- Hardware sales (i)	826,194	1,126,173
- Subscription services (ii)	15,857	2,567
- Other revenue	-	125,052
Total other liabilities	941,598	1,666,940

- (i) For hardware sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer (distributor or direct customer). When the customer initially places the order, the customer is invoiced and the transaction price of the invoice at that point is recognised by the Group as deferred revenue, until the goods have been delivered to the customer. As shipping income is directly related to hardware sales, shipping income is recognised at the same point in time that the hardware sale is recognised.
- (ii) Revenue relating to subscription services is recognised over time with the customer paying up-front in full for these services. Deferred revenue is recognised for subscription services at the time of the initial sales transaction and is released over the service period.

15. Borrowings**Secured borrowing at amortised cost**

R&D Grant Loan	600,000	-
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Unsecured borrowing at amortised cost

Insurance Premium Finance	83,555	32,707
Paycheck Protection Program Term Note (Note a)	145,237	-

Total borrowings	828,792	32,707
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Amount due for settlement within 12 months	731,968	32,707
Amount due for settlement after 12 months	96,824	-

Note (a): DroneShield LLC received loan proceeds of US\$99,600 under the Paycheck Protection Program ("PPP"). The loan bears a fixed interest rate of 1% per annum. The loan and accrued interest is forgivable, at the end of the loan deferral period (4 December 2020), if the loan proceeds are used for qualifying expenses. The Company intends to use the proceeds for purposes consistent with the PPP to meet the conditions for forgiveness of the loan. Should the loan be forgiven it will be recognised as other income.

Notes to the Financial Statements *continued*

16. Lease liabilities

These liabilities were measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 9%.

	31 December 2020 \$	31 December 2019 \$
Amounts due for settlement within 12 months	178,895	118,528
Amounts due for settlement after 12 months	288,502	328,709
Total lease liabilities	467,397	447,237

17. Contributed equity

	No. of shares (Note a)	\$
Balance at beginning of period (1 January 2020)	252,462,135	21,012,607
Repayment of limited recourse loan (Note b)	-	170,791
Transaction costs in relation to Shares issued from Share Placement	-	9,240
Balance at end of period (30 June 2020)	252,462,135	21,192,638

Note (a): The number of shares disclosed is the number of shares in DroneShield Limited.

Note (b): During the 2019 year, limited-recourse loans were issued to certain employees and directors, where the company provided interest free loans for conversion of options previously issued by the company into shares. The loans are due for repayment by September 2024. The loans are non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates.

18. Shares and options

	Number of Shares	Number of Unlisted Options
Opening balances at 1 January 2020	252,462,135	48,751,450
Options lapsed during the period	-	(1,456,000)
Options issued to Directors, Management and Employees	-	1,000,000
Closing balance at 30 June 2020	252,462,135	48,295,450

Unlisted Options

1,000,000 Unlisted Options were issued to Management during the year to 30 June 2020. These Options are subject to various vesting conditions relating to length of employment with the Company and performance of the Company. See Note 6 for further details.

Notes to the Financial Statements *continued*

19. Earnings (loss) per share

	30 June 2020	30 June 2019
(a) Basic earnings (loss) per share		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.46)	(1.43)
(b) Dilutive earnings per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.46)	(1.43)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	252,462,135	186,133,303

Options

Unlisted Options on issue (refer to Note 18) are not included in the calculation of diluted earnings per share because they are considered to be antidilutive (increase shareholders earnings per share) for the period ended 30 June 2020. These options and shares could potentially dilute basic earnings per share in future periods.

20. Commitments

At 30 June 2020, contractual agreements existed to pay suppliers \$191,425 for the manufacturing of inventory to deliver on orders received.

21. Segment information

The following tables present certain information regarding geographical segments for the half-years ended 30 June 2020 and 30 June 2019.

Segment performance 30 June 2020	USA \$	UK \$	Australia \$	Elimination \$	Total \$
Hardware sales including shipping income					
- <i>direct sales</i>	473,748	-	286,360		760,108
- <i>distributors</i>	-	-	2,292,490		2,292,490
Subscription services					
- <i>direct sales</i>	-	-	15,000		15,000
- <i>distributors</i>	902	-	-		902
Total revenue from sales	474,650	-	2,593,850	-	3,068,500
Other revenue	-	-	525,397	-	525,397
Total revenue	474,650	-	3,119,247	-	3,593,897
Other income (losses)	21,891	-	212,204	-	234,095
Depreciation	(68,760)	(1,447)	(286,692)	-	(356,899)
Loss after income tax expense	(182,258)	(152,559)	(836,925)	-	(1,171,742)
Assets and liabilities					
Segment assets	703,719	6,921	14,640,774	(5,798,328)	9,553,086
Segment liabilities	(5,821,584)	(291,097)	(2,311,790)	5,798,328	(2,626,143)

Notes to the Financial Statements *continued*

21. Segment information *continued*

Segment performance 30 June 2019	USA \$	UK \$	Australia \$	Elimination \$	Total \$
Hardware sales including shipping income					
- <i>direct sales</i>	-	-	884,456	-	884,456
- <i>distributors</i>	-	-	1,490,143	-	1,490,143
Subscription services					
- <i>distributors</i>	842	-	-	-	842
Total revenue from sales	842	-	2,374,599	-	2,375,441
Other revenue	297,072	72,300	85,651	(355,320)	99,703
Total revenue	297,914	72,300	2,460,250	(355,320)	2,475,144
Other income (losses)	14,052	-	69,792	-	83,844
Depreciation	(136,031)	-	(181,893)	-	(317,924)
Loss after income tax expense	(847,280)	(22,806)	(1,792,325)	-	(2,662,411)
Assets and liabilities					
Segment assets	165,853	(2,847)	8,064,424	(4,190,440)	4,036,990
Segment liabilities	(4,361,005)	(20,415)	(2,494,835)	4,190,440	(2,685,815)

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

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

22. Impact of COVID-19

During March 2020, COVID-19 was declared a pandemic by the World Health Organisation and has had a significant impact on domestic and global markets and economies. The impact of the COVID-19 pandemic, which continues to evolve on a daily basis, has significantly affected market volatility, exchange rates, supply chains, consumer demand, liquidity and credit conditions and unemployment rates and in a bid to curtail the spread of COVID-19, travel, trade and social restrictive measures have been imposed by the Australian Government.

Majority of the Group's customers are Military and Government agencies which have remained substantially unaffected by COVID-19, thereby reducing the project pipeline exposure of DroneShield. Whilst there were delays in some customer procurement processes, there were no cancellations of any customer orders for DroneShield's products, nor did any potential customer decline to purchase the Company's products.

While there were some delays in the supply chain process, these delays were substantially resolved, resulting in no material impact on the manufacturing process.

In response to the COVID-19 pandemic, the Group has initially decreased its operating expenditure including employee payroll, and requested and received a partial deferral, for 6 months, of the Sydney office rental expense. The Group also applied for and received government assistance including the JobKeeper scheme, payroll tax relief and ATO cashflow boost in Australia and Paycheck Protection Program in the USA. Following the \$7.5 million capital raise via a placement earlier this month, the Company has commenced growing the business and increasing operating expenditure again, to pursue emerging customer opportunities.

Notes to the Financial Statements *continued*

22. Impact of COVID-19 *continued*

The Directors are managing and monitoring the Group's operations closely in response to COVID-19 which continues to evolve on a daily basis. The extent of the impact COVID-19 may have on the Group's future financial performance and position is currently not known given the degree of uncertainty in the current climate.

23. Events after the reporting date

Subsequent to 30 June 2020, the following occurred;

- The Company issued the following shares:
 - o In August 2020, the Company issued 60,000,000 shares in a Share Placement. The issue price was \$0.125, and the total cash received from the placement of shares was \$7,500,000. Under the terms of the Placement, Lead Manager Peloton Capital Pty Limited will receive an aggregate of 5,000,000 unlisted options (which expire in 3 years and has an exercise price of \$0.25). The issue of the 5,000,000 Options is subject to shareholder approval, which will be sought at the next shareholders' meeting.
- In August 2020, the Company repaid the R&D Loan of \$600,000.

No other matter or circumstance has arisen since 30 June 2020 which has significantly affected or may significantly affect:

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

Directors' Declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 7 to 20 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
28 August 2020

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Independent Auditor's Review Report to the Members of DroneShield Limited:

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of DroneShield Limited ("the Company") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of DroneShield Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter – Current and Possible Effects and Uncertainties of COVID-19

We draw attention to note 22 of the half-year financial report, which describes the current and possible effects and uncertainties on the consolidated entity arising from the on-going issues associated with COVID-19. Our conclusion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215

Level 19, 207 Kent Street Sydney NSW 2000 Australia

T: +61 (0)2 9020 4000 **F:** +61 (0)2 9020 4190 **E:** mailbox@hlbnsw.com.au

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'HLB Mann Judd'.

HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants

Sydney, NSW
28 August 2020

A handwritten signature in black ink that reads 'A G Smith'.

A G Smith
Director

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