

## Appendix 4E For the year ended 31 December 2021

**DroneShield Limited**  
**ABN 26 608 915 859**

### 1. Reporting period

The financial information contained in the attached consolidated financial report is for the year ended 31 December 2021. The previous corresponding period was the year ended 31 December 2020.

Results for announcement to the market				
	Up/ Down	% Movement		2021 \$
<b>Revenue</b> from continuing activities	Up	91%	to	10,598,124
<b>Loss</b> from continuing activities after tax attributable to members	Down	9%	to	(5,310,447)
<b>Net loss</b> attributable to members	Down	9%	to	(5,310,447)
<b>Dividends:</b> No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

### 2. Commentary related to the above results

Refer to Directors Report in the attached Annual Report.

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

31 December 2021: \$0.04; 31 December 2020: \$0.06

### 4. There was no change of control during the year

### 5. There were no payments of dividends during the year

### 6. There is no dividend reinvestment plan in operation

### 7. There are no associates or joint venture entities

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

Further information regarding the company and its business activities can be obtained by visiting the company's website at [www.droneshield.com](http://www.droneshield.com)



# DRONESHIELD

## Annual Report

For the Year Ended  
31 December 2021



Image: DroneShield DroneSentry-X™ C-UAS device

**DroneShield Limited (ASX:DRO)**

ASX Release

ABN 26 608 915 859

# Table of Contents

Corporate Information .....	2
Chairman's Review .....	3
About DroneShield .....	4
Board of Directors and Executives .....	7
Corporate Governance Statement .....	9
Directors' Report .....	20
Directors' Report- Remuneration Report (audited).....	40
Auditor's Independence Declaration .....	47
Consolidated Statement of Profit or Loss and Other Comprehensive Income .....	48
Consolidated Statement of Financial Position .....	49
Consolidated Statement of Changes in Equity .....	50
Consolidated Statement of Cash Flows .....	51
1. Summary of Significant Accounting Policies .....	52
2. Critical accounting judgements, estimates and assumptions .....	58
3. Revenue.....	59
4. Other income .....	59
5. Corporate and support expense.....	60
6. Corporate governance expense.....	60
7. Income taxes relating to continuing operations .....	60
8. Options issued .....	61
9. Cash and cash equivalents.....	63
10. Trade and other receivables .....	63
11. Inventories .....	63
12. Other investments.....	63
13. Plant, equipment and intangible assets .....	64
14. Right-of-use asset.....	65
15. Provisions .....	65
16. Other liabilities .....	65
17. Lease liabilities.....	66
18. Borrowings .....	66
19. Contributed equity.....	66
20. Shares and options .....	67
21. Earnings (loss) per share .....	67
22. Key Management Personnel disclosures and related party transactions.....	68
23. Parent entity financial information .....	68
24. Financial risk management .....	69
25. Contingent liabilities .....	70
26. Commitments.....	70
27. Remuneration of auditor .....	71
28. Segment information .....	71
29. Reconciliation from loss after income tax to net cash outflow from operating activities .....	73
30. Impact of COVID-19.....	73
31. Events after the reporting date.....	74
Directors' Declaration .....	75
Independent Auditor's Report.....	76
Shareholder Information .....	80

# 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](mailto:info@dronesield.com)  
Website: [www.dronesield.com](http://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

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

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

**Steinepreis Paganin**  
16 Milligan Street  
Perth WA 6000  
Australia

## Share Registry

**Automic 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 2 9698 5414

## Stock Exchange Listing

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

# Chairman's Review



Peter James,  
Independent Non-  
Executive Chairman

Dear Fellow Shareholders,

2021 has seen DroneShield Ltd ("DroneShield" or the "Company") produce another leap in results, and the overall calibre of the business, despite the ongoing COVID-19 disruptions.

Highlights for 2021 included:

- Revenue of \$10.5 million (in addition to R&D incentives and other grants). This is an approximately 94% increase on 2020 revenues, and continues the trend of the Company generating record revenues each year of its existence.
- \$14.8 million of cash receipts, a 174% growth over 2020.
- Securing \$3.8 million, 2-year AI contract with the Australian Department of Defence.
- A substantial majority of the sales were to blue chip customers such as defence and government agencies in US and Australia, including repeat contracts.
- Strong sales pipeline with over \$100 million<sup>1</sup> in active project discussions for 2022 opportunities (risk unweighted).
- Substantial tailwinds for the defence industry with growing geopolitical tensions, with an increase in Government spending in Australia and globally.

During the year, the Company focussed on mass-scaling of its production processes, on-boarding its second outsourced manufacturer based in Adelaide, as well as ramping up its own testing and production areas. In the current environment of extended lead times for a range of high-tech circuitry, DroneShield has secured a significant amount of raw and finished inventory, allowing for immediate or short-term fulfilment of customer orders, acting as a further competitive advantage.

The Australian Government continues to strongly encourage the growth of the domestic defence industry. The two Artificial Intelligence (AI) R&D contracts, as well as achieving DISP (Secret Clearance) status with the Australian Department of Defence, provide a strong platform for further orders by Australian Government agency customers.

The U.S. Government and military market is expected to be the single largest opportunity for DroneShield, being the largest counterdrone customer in the world. During 2021, DroneShield continued to position itself for that market, with additional hires in its Virginia office, making multiple initial smaller sales, ensuring compatibility to standard US Government software interfaces and conducting multi-agency product evaluations and deployments. The US business is led by a seasoned ex-military veteran team, experienced in scaling US Government sales and the associated steps towards larger purchases.

Despite the COVID-19 slowdown, drones continued to present a rapidly growing threat, both across State-level warfare (including the current Russia-Ukraine conflict), and non-State actors continuing to use drones for nefarious applications at airports, prisons, critical infrastructure and other situations, such as Mexican cartel, Houthi and Myanmar rebel attacks.

At the macro level, international tensions and greyzone warfare (which C-UAS, Electronic Warfare (EW) and related areas are a key part of) continue to rise, driving increases in security and national defence budgets. The Company currently offers its products in over 100 countries and the diversity of its pipeline is one of its key strengths.

DroneShield has continued to grow its relationships with key defence primes in Australia and globally. This is expected to bring further cash receipts (in the form of outright sales and paid R&D contracts) in 2022.



Image: Brazilian TV footage of Government agency using DroneShield equipment

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

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

Peter James  
Independent Non-Executive Chairman

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



## About DroneShield

DroneShield (ASX:DRO) provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. It offers customers bespoke counterdrone (or counter-UAS) and electronic warfare solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime or airborne platforms. The customers include military, intelligence community, Government, law enforcement, critical infrastructure, and airports globally.

### History of DroneShield

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

DroneShield Limited listed on the ASX on 22 June 2016, raising \$7 million on a \$20 million valuation in an oversubscribed initial public offer ('IPO'). In August and September 2020, its last capital raise, DroneShield raised \$17 million via a placement and Share Purchase Plan.

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

### Business Model and Products

Affordable consumer-grade drones ("UAS") have become popular around the world, but they present unique and frequent threats to privacy, physical security and public safety in a wide variety of environments. DroneShield offers products that detect and defeat such drones to civil infrastructure operators, militaries, and other government and commercial users globally. DroneShield's distribution channels focus on third party distributors, as well as direct relationships with various key customers. With offices in Australia and the United States, DroneShield has an experienced salesforce with distribution partners across over 100 countries. The end-users of DroneShield's products come from a diverse array of global sectors, including the following:

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

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

The main product range is as follows:




DroneGun Tactical™

- Portable rifle shape drone disruptor, causing the drone (or swarm) to safely land, or fly back to the starting point (potentially identifying the pilot)
- 7kg weight, no backpack
- Best-in-breed effective range
- Released in early 2018
- Sold across Middle East, Australia, South East Asia, South America, and Europe



DroneGun MKIII™

- Pistol shaped compact drone disruptor
- Best-in-breed effective range
- Released in mid-2019
- Only 2kg weight including battery
- Unique patented design
- Suitable for mobile deployments, patrols, law enforcement and special forces
- Sales include US Government agencies and DoD and Europe

 <p>RfPatrol MKII™</p>	<ul style="list-style-type: none"> <li>• Body-worn drone detection device</li> <li>• Best-in-breed detection range</li> <li>• Can be used with a directional accessory (DAU™) to determine direction of the threat as well as vehicle kit</li> <li>• Completely passive (no RF emissions)</li> <li>• MKII version launched in mid-2020</li> <li>• Deployments include Australian and US military and intelligence customers</li> </ul>
 <p>DroneSentry™</p>	<ul style="list-style-type: none"> <li>• Integrated detect-and-defeat system</li> <li>• Best-in-breed detection and defeat range</li> <li>• Includes radiofrequency direction finders, radars and cameras in a modular manner, with an integrated DroneCannon™ drone disruptor</li> <li>• Utilises DroneShield proprietary DroneSentry-C2™ counterdrone software command-and-control engine</li> <li>• The camera includes DroneOptID™, DroneShield proprietary AI computervision software to detect and track drone targets</li> <li>• Successfully deployed in multiple locations globally, in full or modular forms, across military and Government customer base</li> </ul>
 <p>DroneSentry-X™</p>	<ul style="list-style-type: none"> <li>• Integrated detect-and-defeat counterdrone solution</li> <li>• Best-in-breed detection and defeat range</li> <li>• Deployable on a vehicle, ship or fixed site platforms</li> <li>• Customer trials commenced in late 2020, followed by initial sales through 2021 including US and South-East Asia</li> </ul>

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

The second subscription software product, DroneSentry-C2™, is the Company's Command-and-Control platform on its DroneSentry™ multi-sensor system. It is an intuitive interface with a comprehensive reporting suite, which can combine a number of customer sites deploying both DroneShield's and third-party sensor hardware.

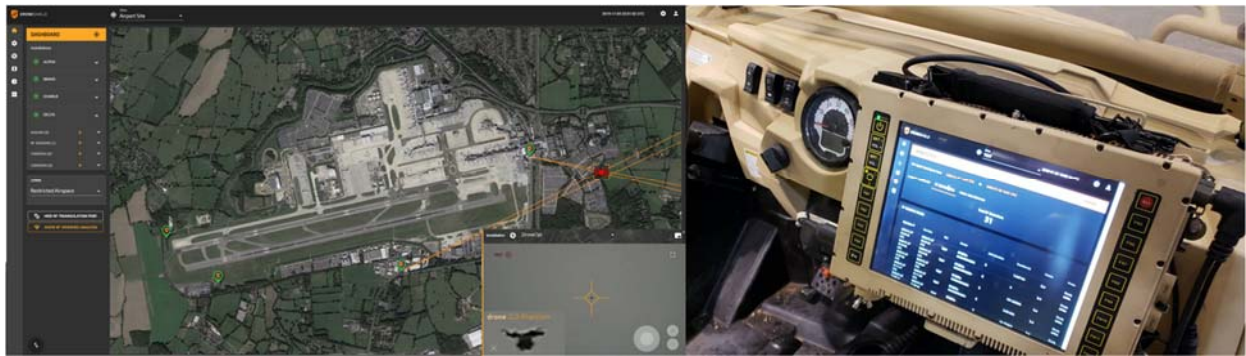


Image: DroneSentry-C2™

#### Artificial Intelligence R&D Defence Contracts

During the year, DroneShield secured two R&D contracts with the Australian Department of Defence (DoD):

- \$3.8 million, 2-year contract in AI applied in Electronic Warfare domain (following on a \$600,000, 6-month contract in 2020),
- \$800,000 1-year contract in AI applied in computervision domain with Defence Innovation Hub.

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

**Revenue Model and Recurring Cashflows**

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

DroneSentry-C2™, the command-and-control software for DroneShield and third-party sensors, is offered on a subscription basis (via on-prem or secure cloud solution).

Additionally, DroneShield offers lease options of its product range to its in-country partners and end customers (where possession and use of a particular product is lawful for that customer according to local laws). The lease periods vary from weekly, to multi-year. Leasing may be suitable for event-based requirements, product evaluations without a commitment to purchase, or for customers who have a preference to lease vs outright purchase. The Company is currently shortlisted for a large U.S. Government "Counterdrone as a service" project, expected to be structured as a long-term lease of its equipment. The tender result is expected to be known this year.

The Company does not believe that leasing would cannibalise its sales, as leasing appeals to a different set of customers and utilises different deployment opportunities. Further, the Company believes that leasing is complementary to its sales efforts as it will promote customer awareness of DroneShield's products and their applications.

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



## Board of Directors and Executives



**Peter James; Independent Non-Executive Chairman**

Mr. James has over 30 years' experience in the Technology, Telecommunications and Media Industries, and has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. He is currently Chair of ASX-listed companies Macquarie Telecom, Ansarada, Nearmap and Halo Food Co.

Mr. James joined the Board of DroneShield on 1 April 2016, serving as Executive Chairman from 2 December 2016 to 24 January 2017. Mr. James is an experienced business leader with significant strategic and operational expertise. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Computer Society and holds a BA degree with Majors in Computer Science and Business.



**Oleg Vornik; CEO and Managing Director**

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

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

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



**Jethro Marks; Independent Non-Executive Director**

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

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

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

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



**Matt McCrann; CEO, DroneShield LLC (USA)**

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

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



#### Angus Bean; Chief Technology Officer

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

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

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



#### Carla Balanco; CFO and Company Secretary

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

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

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

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



#### Lyle Halliday; Chief Operating Officer

Mr Halliday joined DroneShield as an experienced Systems Engineer in 2020 with a background in medical device product development. Since then, he has taken his experience in risk management, cybersecurity, requirements management, quality assurance and regulatory compliance and applied this to business operations.

Mr Halliday is responsible for implementation of processes to ensure customer expectations are met with respect to product quality, delivery and continuous improvement. His engineering experience spans electrical, mechanical, manufacturing and software engineering, allowing him to work across all aspects of business operations.

Mr Halliday is a University Medallist of the Australian National University where he studied a Bachelor of Systems Engineering (Research and Development).



#### Katherine Stapels; General Counsel

Ms. Stapels started her legal career in commercial litigation and moved to her first in-house role in 2018. Ms. Stapels's in-house experience has seen her work with varied businesses across the technology industry, ranging from the supply and manufacture of radar technology to Defence, to payroll technology and outsourcing on a global scale.

Ms. Stapels is nationally recognised for her work in the technology space as she was selected as a finalist in the Lawyers' Weekly Corporate Counsel Awards, in the category of Technology, Media Telecommunications Lawyer of the Year for 2020.

Ms. Stapels has a Double Bachelor's Degree in Law and Economics from the University of Queensland and a Graduate Diploma in Legal Practice from the Australian National University. Ms. Stapels currently holds a NSW Practising Certificate and is a registered practitioner of the High Court of Australia.

# Corporate Governance Statement

The Board of the Company ("**Board**") recognises the importance of establishing a comprehensive system of control and accountability as the basis for the administration of corporate governance.

To the extent relevant and practical, the Company has adopted a corporate governance framework that is consistent with *The Corporate Governance Principles and Recommendations (4th Edition)* as published by ASX Corporate Governance Council ("**Recommendations**").

The Board has adopted the following suite of corporate governance policies and procedures which are contained with the Company's **Corporate Governance Plan**, a copy of which is available on the Company's website at <https://www.droneshield.com/investors>.

- Board Charter
- Corporate Code of Conduct
- Public Sector Code of Conduct
- Audit and Risk Committee Charter
- Remuneration Committee Charter
- Nomination Committee Charter
- Continuous Disclosure Policy
- Risk Management and Compliance Policy
- Remuneration Policy
- Trading Policy
- Diversity Policy
- Shareholder Communications Strategy
- Whistleblower Protection Policy
- Anti-bribery and Anti-Corruption Policy
- Performance Evaluation Procedures
- Skills Matrix

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

The Company is pleased to report that its practices are largely consistent with the Recommendations of the ASX Corporate Governance Council and sets out below its compliance and departures from the Recommendations for the year ended 31 December 2021.

In the context of the Company's nature, scale and operations, the Board considers that the current corporate governance regime is an efficient, practical and cost-effective method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the implementation of additional corporate governance policies and structures will be reviewed and considered.

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<b>Principle 1: Lay solid foundations for management and oversight</b>		
<b>Recommendation 1.1</b> A listed entity should have and disclose a board charter setting out: a) the respective roles and responsibilities of its board and management; and b) those matters expressly reserved to the board and those delegated to management.	Yes	<p>The Board is responsible for the corporate governance of the Company.</p> <p>The Company has adopted a Board Charter which sets out, amongst other things, the specific responsibilities of the Board, the roles and responsibilities of the Chairman, Board and management, as well as the matters expressly reserved for the decision of the Board and those delegated to management. A copy of the Company's Board Charter is contained in its Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a></p> <p>The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in Board discussions on a fully informed basis.</p> <p>The Company intends to regularly review the balance of responsibilities between the Board and</p>

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION												
		management to ensure that the division of functions remains appropriate to the needs of the Company.												
<b>Recommendation 1.2</b> A listed entity should: <ul style="list-style-type: none"> <li>(a) undertake appropriate checks before appointing a Director or senior executive, or putting someone forward for election, as a Director; and</li> <li>(b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.</li> </ul>	Yes	<p>The Company's Corporate Governance Plan requires the Board to undertake appropriate checks as to the character, experience, education, criminal record and bankruptcy history of the candidate before appointing a person or putting forward to security holders a candidate for election, as a Director.</p> <p>All material information relevant to a decision on whether to elect or re-elect a Director will be provided to security holders in any notice of meeting pursuant to which the resolution to elect or re-elect such Director will be voted on.</p>												
<b>Recommendation 1.3</b> A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	Yes	Each Director and senior executive of the Company is party to a written agreement with the Company which sets out the terms and conditions of that Director's or senior executive's appointment.												
<b>Recommendation 1.4</b> The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Yes	The Board Charter outlines the role, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the Chair, on all matters relating to the proper functioning of the Board. The Chairman and the Company Secretary co-ordinate the Board agenda.												
<b>Recommendation 1.5</b> A listed entity should: <ul style="list-style-type: none"> <li>(a) have and disclose a diversity policy;</li> <li>(b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and</li> <li>(c) disclose in relation to each reporting period: <ul style="list-style-type: none"> <li>a. the measurable objectives set for that period to achieve gender diversity;</li> <li>b. the entity's progress towards achieving those objectives; and</li> <li>c. either: <ul style="list-style-type: none"> <li>(A) the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or</li> <li>(B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</li> </ul> </li> </ul> </li> </ul> <p>If the entity was in the S&amp;P / ASX 300 Index at the commencement of the reporting period, the measurable objective for achieving gender diversity in the composition of its board should be to have not less than 30% of its Directors of each gender within a specified period.</p>	<div>Yes</div> <div>No</div> <div>N/A</div> <div>N/A</div> <div>Yes</div>	<p>The Company has adopted a Diversity Policy which identifies gender diversity as a key area of focus for the Company. While the Company is committed to gender diversity in its workplace, the Board believes that the Company is not yet of a size where it is appropriate to implement formal measurable objectives for achieving gender diversity.</p> <p>Whilst the Board previously adopted a tiered approach to the implementation, this approach has been revisited given the stage of development that the Company remains in. As the Company's workforce continues to grow, this will be re-assessed at the appropriate times.</p> <p>A copy of the Company's Diversity Policy is contained in its Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a></p> <p>During the reporting period (i.e., the year ended 31 December 2021), the respective proportions of men and women in the following roles were as follows:</p> <table border="1"> <thead> <tr> <th></th><th>Men</th><th>Women</th></tr> </thead> <tbody> <tr> <td>Board</td><td>100%</td><td>0%</td></tr> <tr> <td>Senior executives</td><td>60%</td><td>40%</td></tr> <tr> <td>Across the whole organisation</td><td>78%</td><td>22%</td></tr> </tbody> </table>		Men	Women	Board	100%	0%	Senior executives	60%	40%	Across the whole organisation	78%	22%
	Men	Women												
Board	100%	0%												
Senior executives	60%	40%												
Across the whole organisation	78%	22%												





PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<b>Recommendation 2.2</b> A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Yes	<p>The Board of the Company is comprised of Directors with a broad range of technical, commercial, financial and other skills, experience and knowledge relevant to overseeing the business of a drone security company.</p> <p>The Company had developed a Board Skills Matrix which is used as a tool to assess the appropriate and ideal balance of skills, experience, independence and diversity necessary for the Board to discharge its duties and responsibilities effectively.</p> <p>A summary of the collective skills, experience, independence and diversity of the Board is set in Annexure C of the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p>
<b>Recommendation 2.3</b> A listed entity should disclose: <ul style="list-style-type: none"> <li>(a) the names of the Directors considered by the board to be independent Directors;</li> <li>(b) if a Director has an interest, position or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion; and</li> <li>(c) the length of service of each Director</li> </ul>	Yes	<p>During the 2021 financial year, the Independent Directors of the Company were:</p> <ul style="list-style-type: none"> <li>- Mr. Peter James (Non-Executive Chairman); and</li> <li>- Mr. Jethro Marks (Non-Executive Director).</li> </ul> <p>Mr. Oleg Vornik, the Managing Director, was not considered to be independent during his tenure due to his executive role as Managing Director of the Company.</p> <p>The Board has determined the independence of each of the Company's Directors in line with the guidance set out by the ASX's Corporate Governance Council and have not formed an opinion contrary to those guidelines.</p> <p>The Directors who held office during and after the 2021 financial year have served continuously since their respective dates of appointment unless otherwise noted below:</p> <ul style="list-style-type: none"> <li>- Mr. Peter James: appointed 1 April 2016;</li> <li>- Mr. Oleg Vornik: appointed 24 January 2017; and</li> <li>- Mr. Jethro Marks: appointed 16 January 2020.</li> </ul>
<b>Recommendation 2.4</b> A majority of the board of a listed entity should be independent directors.	Yes	<p>The Board Charter requires that, where practical the majority of the Board will be independent.</p> <p>During the 2021 financial year, the following two of the Company's three Directors were considered to be Independent Directors:</p> <ul style="list-style-type: none"> <li>- Mr. Peter James (Non-Executive Chairman); and</li> <li>- Mr. Jethro Marks (Non-Executive Director).</li> </ul>
<b>Recommendation 2.5</b> The chair of the board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	Yes	<p>The Chairman, Mr. Peter James is an Independent Non-Executive Director and is not the same person as the Managing Director of the Company.</p>

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<b>Recommendation 2.6</b> A listed entity should have a program for inducting new Directors and for periodically reviewing whether there is a need for existing Directors to undertake professional development to maintain the skills and knowledge needed to perform their role as a Director effectively.	Yes	<p>The Company's program for the induction of new Directors is tailored for each new Director (depending on their personal requirements, background skills, qualifications and experience) and includes the provision of a formal letter of appointment and an induction package containing sufficient information to allow the new Director to gain an understanding of the business of the Company, and the roles, duties and responsibilities of Directors and the Executive team.</p> <p>All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors may have access to various resources and professional development training to address any skills gaps.</p>
<b>Principle 3: Instil a Culture of acting Lawfully, Ethically and Responsibly</b>		
<b>Recommendation 3.1</b> A listed entity should articulate and disclose its values.	Yes	<p>The Company's values are disclosed in the Corporate Code of Conduct which is contained in the Company's Corporate Governance Plan and available on the Company's website at:</p> <p><a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p>
<b>Recommendation 3.2</b> A listed entity should: <ul style="list-style-type: none"> <li>(a) have and disclose a code of conduct for its Directors, senior executives and employees; and</li> <li>(b) ensure that the board or a committee of the board is informed of any material breaches of that code.</li> </ul>	Yes	<p>The Company has adopted a Corporate Code of Conduct which applies to Directors, employees and contractors of the Company.</p> <p>The Corporate Code of Conduct is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>The Board is informed of any material breaches of the Corporate Code of Conduct.</p>
<b>Recommendation 3.3</b> A listed entity should: <ul style="list-style-type: none"> <li>(a) have and disclose a whistleblower policy; and</li> <li>(b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.</li> </ul>	Yes	<p>The Company has adopted a Whistleblower Policy which is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>Clause 7 of the Whistleblower Policy provides that the board is informed of any material incidents reported.</p>
<b>Recommendation 3.4</b> A listed entity should: <ul style="list-style-type: none"> <li>(a) have and disclose an anti-bribery and corruption policy; and</li> <li>(b) ensure that the board or committee of the board is informed of any material breaches of that policy.</li> </ul>	Yes	<p>The Company has adopted an anti-bribery and anti-corruption (ABC) policy which applies to all officers, employees, and contractors who represent the Company.</p> <p>The ABC policy is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>Clause 8.2 of the ABC Policy provides that all material breaches of the ABC Policy must be reported immediately to the Board.</p>

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<b>Principle 5: Make timely and balanced disclosure</b>		
<b>Recommendation 5.1</b> A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	Yes	<p>The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company to ensure that it complies with its continuous disclosure obligations as required under the ASX Listing Rules and other relevant legislation.</p> <p>The Company's Continuous Disclosure Policy is contained within the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p>
<b>Recommendation 5.2</b> A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	Yes	<p>The Company Secretary ensures the Board is provided with copies of all material market announcements promptly after they have been made.</p>
<b>Recommendation 5.3</b> A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	Yes	<p>Pursuant to the Company's Continuous Disclosure Policy ahead of any new and substantive investor or analyst presentation, a copy of the presentation materials must be released to ASX (even if the information in the presentation would not otherwise require market disclosure).</p> <p>The Company's Continuous Disclosure Policy is contained within the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p>
<b>Principle 6: Respect the rights of security holders</b>		
<b>Recommendation 6.1</b> A listed entity should provide information about itself and its governance to investors via its website.	Yes	<p>Shareholders can access information about the Company and its governance (including its constitution and adopted corporate governance policies) from the Company's website <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>The Company will regularly update the website and contents therein as deemed necessary.</p>
<b>Recommendation 6.2</b> A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	Yes	<p>The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors.</p> <p>The Strategy outlines a range of ways in which information is communicated to Shareholders, including via its website, through announcements released to the ASX, its annual report and general meetings. Shareholders are also welcome to contact the Company or its registrar, Automic Registry Services, via email or telephone.</p> <p>The Company's Shareholder Communications Strategy is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p>

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<b>Recommendation 6.3</b> A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	Yes	<p>As noted above, the Company's Shareholder Communications Strategy is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>. Shareholders will be encouraged to participate at all general meetings of the Company by written statement contained in every Notice of Meeting sent to shareholders prior to each meeting.</p> <p>The Company intends to accommodate shareholders who are unable to attend general meetings in person by accepting votes by proxy. Further, any material presented to shareholders at the meeting will be released to the ASX immediately prior to the commencement of the meeting for the benefit of those shareholders who are unable to attend in person. The Company will also announce to the ASX the outcome of each meeting immediately following its conclusion.</p> <p>At each general meeting, shareholders will be given an opportunity to ask questions in relation to the resolutions put to shareholders at that meeting, and in respect of the Company's business and operations generally.</p> <p>At each AGM, shareholders will also be invited by the Chairman to ask questions of the Company's external auditor and the Board in relation to the annual financial report of the Company and the conduct of the audit.</p>
<b>Recommendation 6.4</b> A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.	Yes	<p>The Company's Shareholder Communications Strategy provides that all substantive resolutions at a meeting of security holders will be decided by a poll rather than a show of hands.</p>
<b>Recommendation 6.5</b> A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Yes	<p>Shareholders have the option of electing to receive all shareholder communications by e-mail and can update their communication preferences with the Company's registrar, Automic Registry Services, at any time.</p> <p>Security holders can also register with the Company at <a href="mailto:info@droneshield.com">info@droneshield.com</a> to receive email notifications following the release of a material announcement to the ASX.</p>



[illegible]

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<b>Recommendation 7.4</b> A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.	Yes	<p>The Company's Risk Management Policy details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (where appropriate).</p> <p>During the 2021 financial year, the Company undertook a review of the Company's risk management framework in line with its Risk Management Policy.</p> <p>All material risks are announced to the market, in accordance with the requirements of the ASX listing rules and otherwise.</p>
<b>Principle 8: Remunerate fairly and responsibly</b>		
<b>Recommendation 8.1</b> The board of a listed entity should: <ul style="list-style-type: none"> <li>(a) have a remuneration committee which:               <ul style="list-style-type: none"> <li>(i) has at least three members, a majority of whom are independent Directors; and</li> <li>(ii) is chaired by an independent Director,</li> </ul>               and disclose:               <ul style="list-style-type: none"> <li>(iii) the charter of the committee;</li> <li>(iv) the members of the committee; and</li> <li>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ul> </li> <li>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</li> </ul>	<div>No</div> <div>Yes</div> <div>N/A</div> <div>N/A</div> <div>Yes</div>	<p>Due to the size of the Board and the scale of the Company's operations, the Board have determined that the function of the Remuneration Committee is most efficiently carried out with full Board participation (to the extent permitted under the Corporations Act and ASX Listing Rules), and accordingly has elected not to establish a separate Remuneration Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Remuneration Committee under the Remuneration Committee Charter are carried out by the full Board.</p> <p>The Remuneration Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>The Board devotes time on at least an annual basis to fulfil the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>
<b>Recommendation 8.2</b> A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	Yes	<p>The Company's general policies and practices regarding the remuneration of Non-Executive and Executive Directors and other senior employees are set out in the Remuneration Policy which is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>Further information regarding the remuneration practices of the Company is contained in the Remuneration Report on pages 40 to 46.</p>
<b>Recommendation 8.3</b>	Yes	<p>The Company's Remuneration Committee (the function of which is currently performed by the full</p>

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> <li>(i) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</li> <li>(ii) disclose that policy or a summary of it.</li> </ul>		<p>Board) is responsible for the review and approval of any equity-based remuneration schemes offered to Directors and Employees of the Company.</p> <p>Further, in accordance with the Remuneration Committee Charter, the Remuneration Committee (the function of which is currently performed by the full Board) is also responsible for granting permission, on a case-by-case basis, for scheme participants to enter transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.</p> <p>During the 2021 financial year, the Board of the Company authorised the issue of securities to Directors and employees under its shareholder approved Incentive Option Plan. To date, no participant to the Incentive Option Plan has sought (or been granted) approval to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.</p> <p>The Company's policy in this regard is set out in the Company's Remuneration Committee Charter, a copy of which is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p> <p>The Company also has a Securities Trading Policy that prohibits Directors, Officers and employees from entering into transactions or arrangements which limits the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.</p> <p>A copy of the Securities Trading Policy is contained in the Company's Corporate Governance Plan which is available on the Company's website at: <a href="https://www.droneshield.com/investors">https://www.droneshield.com/investors</a>.</p>

## Directors' Report

Your Directors present their report for DroneShield Limited (the "Company") and its controlled entities ("the Group") for the year ended 31 December 2021.

### Directors

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

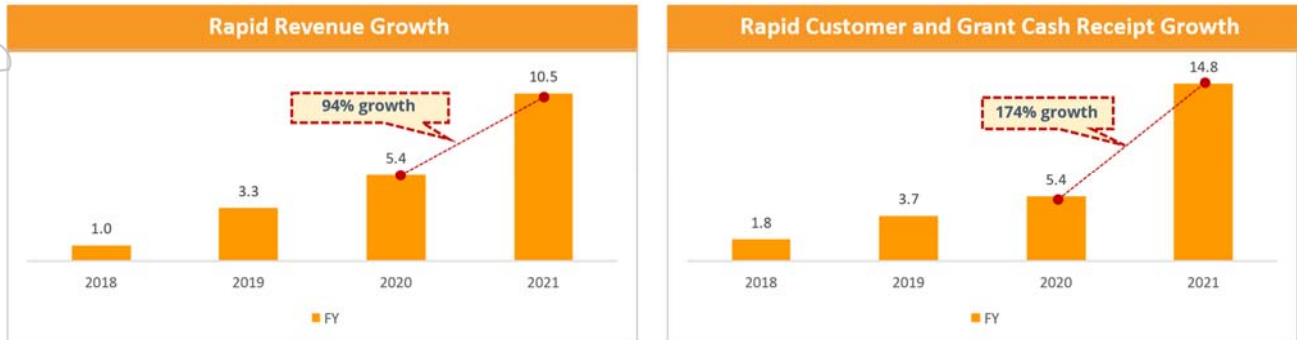
Name	Position	Effective date
<b>Directors</b>		
Peter James	Independent Non-Executive Chairman	Appointed as Independent Non-Executive Chairman 1 April 2016. Served as Executive Chairman from 2 December 2016. Returned to Independent Non-Executive Chairman 24 January 2017.
Oleg Vornik	Executive Director, CEO and Managing Director	Appointed as CEO and Managing Director 24 January 2017.
Jethro Marks	Independent Non-Executive Director	Appointed 16 January 2020.

### Meetings of Directors

Name	Meetings eligible to attend	Meetings attended
<b>Directors</b>		
Peter James	12	12
Oleg Vornik	12	12
Jethro Marks	12	12

## Review of Operations and Financial Results

The Company has reported approximately doubling of its sales revenue compared to 2020, to \$10.5 million, and approximately tripling of customer and grant cash receipts to \$14.7 million. Customer and grant cash receipts for the December 2021 quarter were approximately \$2.7 million. The closing cash and term deposits balance as at 31 December 2021 was \$9.5 million.



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

The United States government is the largest counterdrone customer globally. As a result of its commitment to its U.S. customer base, DroneShield experienced many highlights throughout 2021 and looks to build upon this success in 2022 and beyond.

In January 2022, DroneShield promoted Matt McCrann, its U.S. Vice President of Sales, to CEO of its U.S. based, DroneShield LLC. As a substantial amount of near term anticipated growth is expected to originate from the United States, DroneShield continues to grow its team and footprint within the market.

DroneShield will continue to expand its U.S. operations, including doubling the size of its U.S. headquarters within Warrenton, Virginia. The Company has also continued to expand its U.S. team, across sales, engineering and support roles.

DroneShield has continued to participate in a number of invite-only U.S. Government led Test and Evaluation (T&E) exercises, most notably the Joint Counter-sUAS Office (JCO) led evaluation at Yuma Proving Grounds (YPG). There are many entry points and influencers within the C-UAS market in the US. Due to its market size and the wide-ranging requirements for C-UAS, trials and evaluations like these, serve as key milestones towards subsequent purchases by each primary agency.

DroneShield continues to increase its presence and visibility within the U.S. market, which now includes a customer base that spans Department of Defense, Federal and State level government, Public Safety, and commercial organisations and integrators. In 2021, DroneShield successfully delivered several orders across the U.S. Government to include Military, Federal, and State level law enforcement agencies. Several of these were follow on orders and expansion projects with existing customers, which is a testament to the quality of the products and solutions provided.



Image: U.S. Government agency DroneSentry™ trials





*Image: DroneSentry™ system deployed in the U.S.*

DroneSentry-X™ successfully completed a demonstration exercise with the U.S. Navy. The system was deployed on the Stiletto experimentation vessel for six weeks, successfully completing a range of performance and evaluation metrics.

DroneSentry-X™ is a high-performance detection and mitigation solution for a wide range of environments including ground mobility operations, maritime security and fixed-site base requirements. DroneSentry-X™ is powered by RFAI, DroneShield's cutting-edge AI/ML signal detection and classification engine, providing unparalleled performance in the C-UAS space. DroneSentry-X™'s open architecture and interoperability allows users to easily integrate DroneSentry-X™ with other solutions to further enhance existing mission systems or counter-UAS capabilities.

The system demonstrated overall detection capability, detection and defeat ranges, on-the-move operation in various sea states, and effectiveness against drone swarms, involving a wide range of unmanned robotic threats.



*Image: DroneSentry-X™ on the US Navy Stiletto vessel*

The successful U.S. Navy demonstration validates other recent DroneSentry-X™ evaluations by the U.S. Department of Defense, Department of Homeland Security, and both Federal and State Law Enforcement agencies.

The Company entered into a new Cooperative Research and Development Agreement (CRADA) with the U.S. Department of Homeland Security Science and Technology Directorate ("DHS S&T"). The research will involve DroneShield's multi-sensor Unmanned Aerial System ("UAS") detection and mitigation capabilities, with the primary focus on DroneSentry™ and DroneSentry-C2™ solutions for fixed and semi-fixed site applications.



Image: DroneShield's DroneSentry-X™ system on a vehicle

In the Law Enforcement sector, the ease of use and cost-effectiveness of DroneShield's solutions have led to multiple orders from State and Local law enforcement and Homeland Security agencies.

In February 2022, State of Texas signed a 5 year framework agreement enabling streamlined purchasing of DroneShield equipment by the State's Government agencies. Also in February 2022, DroneShield announced a follow-up \$750,000 contract with a major U.S. Government agency, as DroneShield works through milestones for a major purchase with that customer.

#### **Australian Department of Defence and other government agencies**

Being an Australian sovereign industrial defence capability business, DroneShield is well positioned for work with the Australian Department of Defence ("DoD") and other Government agencies.

During the year, the Company successfully completed its first Artificial Intelligence contract with the Department of Defence.

DroneShield subsequently received a \$3.8 million, 2-year R&D contract with the Department of Defence. The contract was awarded to DroneShield on a sole source basis. Importantly, the contract was not in C-UAS, but Electronic Warfare and Signals Intelligence, an adjacent area utilising an existing DroneShield skillset, but with much wider applications.

DoD has further awarded a third, 12-month \$800,000 contract relating to Artificial Intelligence in multi-domain applications including sensor fusion of these separate domains, such as computer vision and electronic warfare. The work relates to both the counterdrone space as well as more general military/Government agency applications.

Additional, and larger, contracts are expected with the Department of Defence, as DroneShield builds up its capabilities in the Electronic Warfare and Signals Intelligence arena.

As part of the engagement with the Department of Defence, as DroneShield is in the business of understanding, and minimising, defence and Government customer vulnerabilities, secret clearances are important for closer and more productive customer engagements as the Company scales its business. During the year, the Company was accordingly approved for the Defence Industry Security Program ("DISP") process and became eligible for a defence clearance.

Australian Army has recently released images of DroneShield's equipment in their deployment, in a mobile configuration on a vehicle. These can be viewed [here](#).

In December 2021, the Australian Communications and Media Authority (ACMA), the Australian Federal Government agency regulator of the communications spectrum nationally, granted DroneShield the first exemption permit of its kind to both undertake advanced testing of the Company's Electronic Warfare and counterdrone portfolio in Australia. The exemption has appropriate safeguards in place to balance the need to develop and test advanced technologies in Australia, while maintaining restrictions around impact on the broader community. This permit substantially accelerates the development and optimisation of advanced Artificial Intelligence-powered electronic warfare and counter-terrorism technologies here in Australia, and we are excited to rapidly move forward in undertaking the work, at DroneShield and University of Technology Sydney (UTS) facilities.



Image: DroneShield's AI-powered body-worn RfPatrol sensor

### **Middle East**

During the year, DroneShield received the remaining \$2.3 million (in addition to the funds previously received by DroneShield under this order) for a shipment of the remaining DroneGun Tactical™ units under a prior Middle Eastern Ministry of Defence order. Receipt of the payment successfully concluded the contract.

Completion of the contract has been an important milestone, demonstrating DroneShield's ability to successfully navigate doing business in one of the most challenging yet most lucrative regions globally for Western companies, in terms of successful management of stakeholders and achieving outcomes.

It also highlighted the global leadership positioning of DroneShield products, and its best-in-breed performance, as confirmed by this customer who faces daily UAS threats on their home soil, like no other customer globally.

DroneShield also continues to pursue the \$65 million to \$75 million potential order (US\$45-55 million), with a fully completed form of contract awaiting execution by the sovereign customer.

### **The United Kingdom – Partnership with BT**

DroneShield continues its partnership with BT, with UK Ministry of Defence ("UK MOD") as the prime focus, along with law enforcement and airport customers. DroneShield and BT have made substantial inroads with UK customers over the last 12 months, despite the COVID-19 slowdown.

### **Europe**

During 2021, DroneShield completed multiple order deployments and trials throughout Europe.



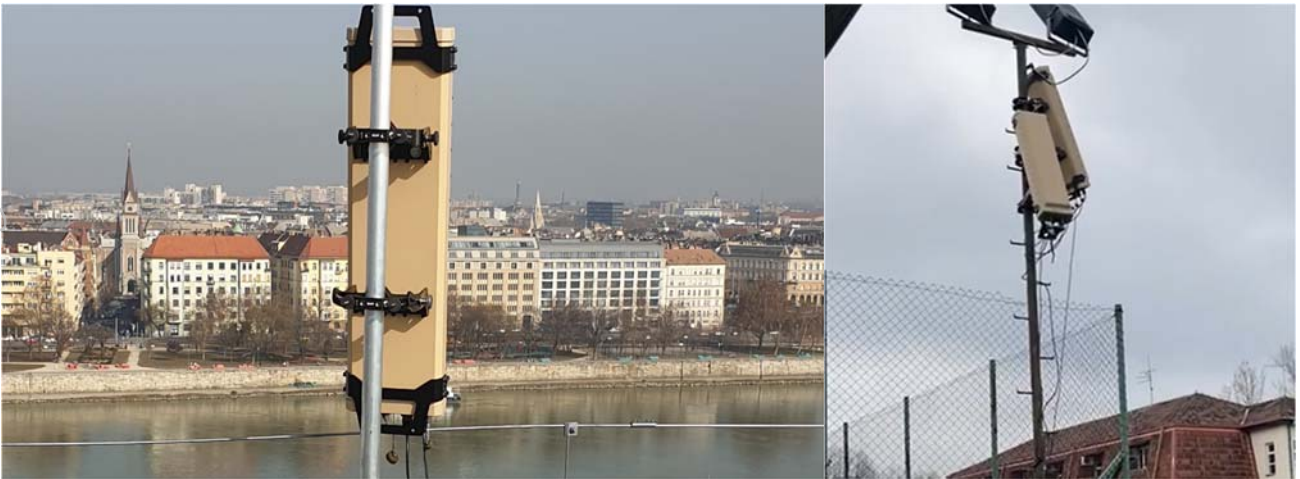


Image: DroneSentry™ deployments in Europe



Image: DroneShield system deployment (RfOne™ on the right) at a major European airport



Image: DroneSentry™ deployment in Europe

DroneShield has participated at a number of key European trials and exhibitions including Interpol's Oslo Airport C-UAS evaluation and the MILIPOL exhibition in France.

### Rest of the World

DroneShield has made high profile sales and is in active ongoing project discussions around the world, ranging across Brazil, Mexico, Latin America, Indonesia, Japan, Malaysia, and many others. These markets are seeing extensive use of drones for nefarious applications, and material budgets have been allocated, and continue to be allocated, to combat the drone issue.

### Product Development

DroneShield continues to position itself at the cutting edge of solutions for detection and response to a wide variety of asymmetric multi-domain threats, as the greyzone conflict continues to rapidly rise, at both non-State actor level and State-on-State warfare.



Image: DroneShield application software team meeting

### Next Gen Artificial Intelligence Software Rollout

In February 2021, DroneShield announced the rollout of RFAI™, its Machine Learning/AI based detection and classification software, to all its existing customer systems, with the April quarterly update continuing to build on this world leading platform, with several break-through enhancements.

The subsequent quarterly updates have included an increase in ruggedness and versatility of the system and incorporated a number of user-suggested features from the global deployment base of DroneShield's body-worn, on-the-move and base protection systems. The updates also included compatibility of the DroneSentry-C2™ command-and-control ecosystem with additional partner sensor products.

DroneShield utilises its proprietary techniques in signal processing and Machine Learning/AI to do near-real time detection and identification of unmanned robotic systems and, more broadly, other potential threats in the Electronic Warfare fields. The result is a dramatic increase in detection responsiveness, lower false positives and a significant increase in the speed at which new threats are detected, classified and tracked by the DroneShield systems.

One of the key achievements that sets DroneShield's technology substantially ahead of the existing technologies globally, is a very lightweight machine learning architecture designed to run on low power FPGA (Field-Programable Gate Array) hardware. This enables the system to be deployed for long term periods in power scarce, air-gapped environments.





*Image: DroneShield RF embedded team undertaking software field testing*

The software runs on all DroneShield platforms including RfPatrol™, DroneSentry™ and DroneSentry-X™.

Future device software updates will build on this system architecture and increase performance and the number of detectable threats.

DroneShield customers receive regular software updates via enrolling in a Subscription-as-a-Service (SaaS) model at the time of purchase of their systems. Importantly, the software also has capabilities for deployment outside of the C-UAS space, on a hardware agnostic basis.



*Image: DroneSentry™ system*



Image: DroneSim™, a lightweight and rapidly deployable UAS/drone simulator that is able to mimic common drone signals

#### Secure Software Portal

As DroneShield continues to place an increasing number of deployed devices with software subscriptions, it launched a secure portal, providing an easy and secure way for its customers to access periodic software updates.

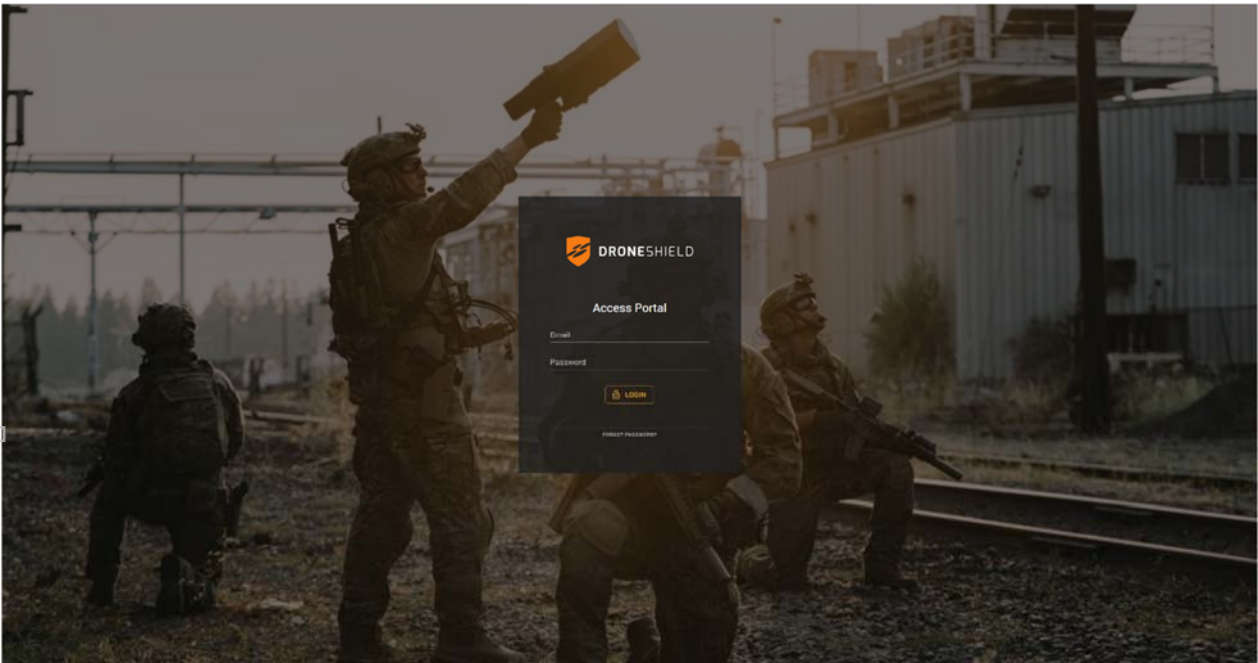


Image: DroneShield's secure software portal



### Immediate Response Kit (IRK)

In June 2021, DroneShield announced the release of Immediate Response Kit (IRK™), a rapidly deployable C-UAS detection and defeat kit.

IRK™ consists of an RfPatrol MKII™ portable (1.2kg incl battery) detection device and a DroneGun MKIII™ (2.1kg incl. battery) defeat device, in a single rugged carry case.

Image: Immediate Response Kit (IRK)



### DroneOptID™ 2.0

In 2021, DroneShield released DroneOptID™ 2.0, the second-generation version of its optical Artificial Intelligence/Machine Learning based software.

The original DroneOptID™ system, developed in collaboration with the University of Technology Sydney (UTS) under a grant from the Australian Government, is a sophisticated AI engine to detect, classify and track small, rapidly moving UAS, as well as their payloads.

The updates include effectiveness in a wider range of environments including night-time via thermal sensors, improved detection and classification of UAS payloads and cutting-edge technology estimating the target distance and altitude from the sensor.

DroneShield utilises its proprietary techniques in signal processing and Machine Learning/AI to do near-real time detection and identification of unmanned robotic systems (UAVs, UGVs and USVs). Its DroneOptID™ the optical sensor stream works in parallel with RFAI cutting edge software engine in the radiofrequency spectrum sensing space.

In addition to enabling camera-agnostic substantially enhanced capabilities of target tracking via a layer of software, DroneOptID™ also opens the door to a variety of sophisticated target tracking applications on battlefield, cluttered urban and other complex environments, for a variety of threats, which is of interest to the Company's existing and prospective Government and military customer base.

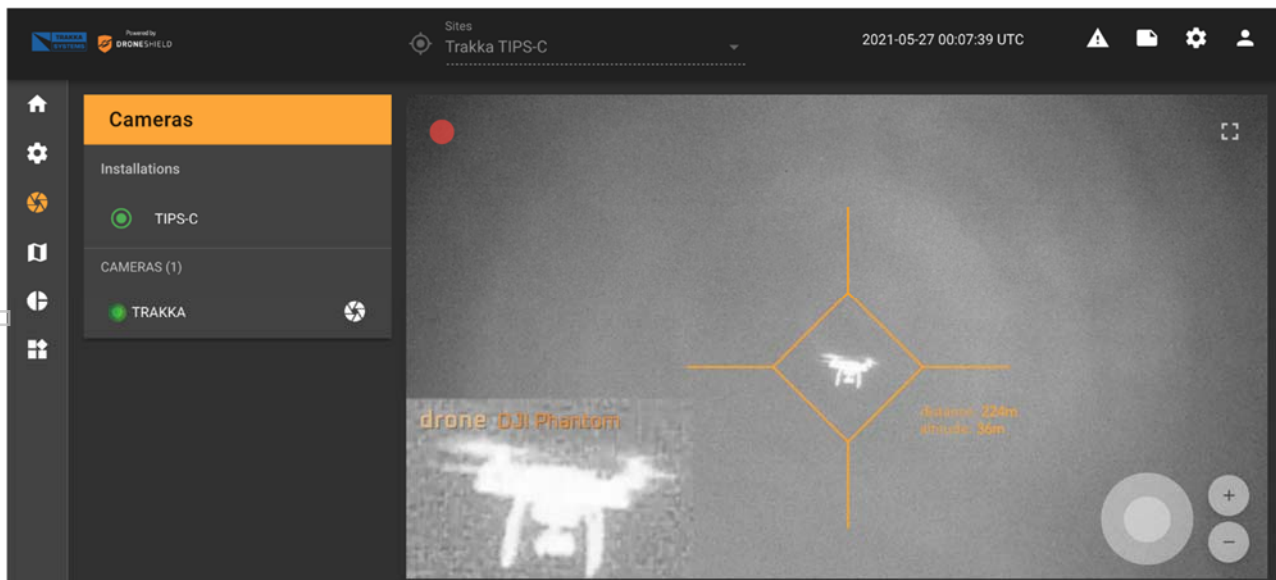


Image: DroneOptID™ module in thermal mode within the DroneSentry-C2™ system

### Team and Operations

The DroneShield team is now at 60 staff (doubling from 30 staff 12 months ago) - substantially engineers, sales and field support, and production technicians. The team is expected to remain at approximately the same size in the near term, to optimise the cost structure. Operating monthly costs (before taking revenues and grants into account) is approximately \$1 million (excluding inventory investment).



*Image: Gold Patrol (named after DroneShield RfPatrol™) monthly ceremony, DroneShield's Oscars where each team competes for the award based on an achievement that month*

DroneShield continues outsourcing of larger production runs to an experienced defence manufacturing contractor in Adelaide (a fully Australian owned and operated medium size specialised electronics manufacturer). The manufacturer has completed initial large production runs (50-100 units), successfully working through the scalability considerations (the earlier production runs were of quantities of 10-20 units). Two outsourced manufacturers are now used in total.

DroneShield continues to do its own manufacturing of smaller batches of its products (co-located with its main R&D premises in Sydney, enabling agile product refinement).





Image: RfPatrol MKII™ units following final QC testing



Image: DroneSentry-X™ heatsinks during the manufacturing process

Having successfully undertaken production runs of 100-unit batches across multiple product lines, enables confidence in scaling capabilities, at its own and its outsourced facilities.

The production processes have continued throughout 2021, in a COVID-compliant manner.





Image: RfOne MKII™ units undergoing final QC testing



Image: DroneSentry-X™ prepared for shipment by the DroneShield team

## ISO 9001 Certification

During 2021, DroneShield was awarded the international standard ISO9001:2015 Quality Management Systems certification.

The certification was awarded by SAI Global, the internationally recognised certifying body.

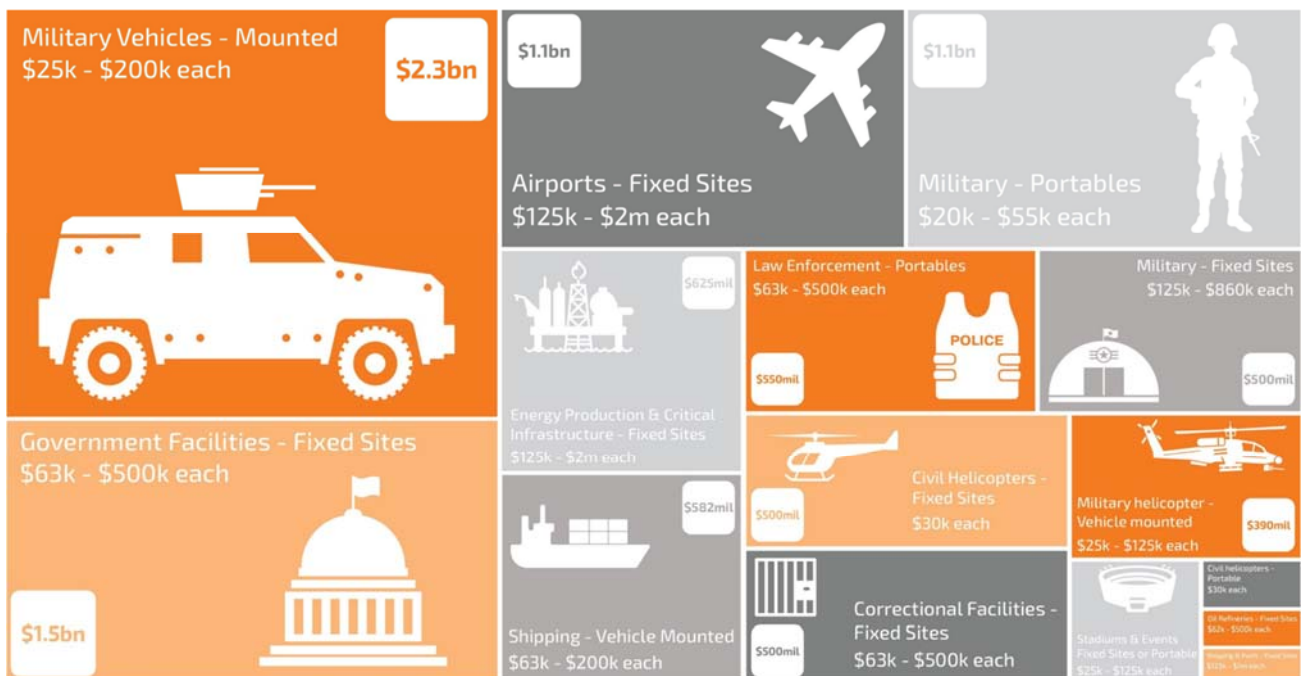
ISO 9001 specifies global best practice in quality management systems, using a process-driven approach. It shows organisations how to improve and maintain leadership, governance, communications and employee engagement to deliver unique, high-quality customer and brand experiences.

Certification recognises that the processes and procedures implemented by DroneShield are aligned with global best practices.

The certification covers DroneShield's Quality Management System for the engineering design, software development, manufacture and field services, including specifically for counter-drone technology.

## Market Insights for Counterdrone

In December, DroneShield released an infographic highlighting the \$10bn Counterdrone market, underscoring the large opportunity:



While most trade shows continue to be postponed or held virtually due to COVID-19 during the year, DroneShield continued to participate in key events, directly or via partners.

In Australia, these events included the Army Robotics Exposition (ARX) and Land Forces Expo, both in Brisbane, where the Company exhibited both in its own stand and at the stands of its exhibiting partners.





Image: DroneShield CEO Oleg Vornik and Sales Director Red McClintock, with Hon Stuart Ayres, Minister for Jobs, Investment, Tourism and Western Sydney of New South Wales, at Land Forces 2021

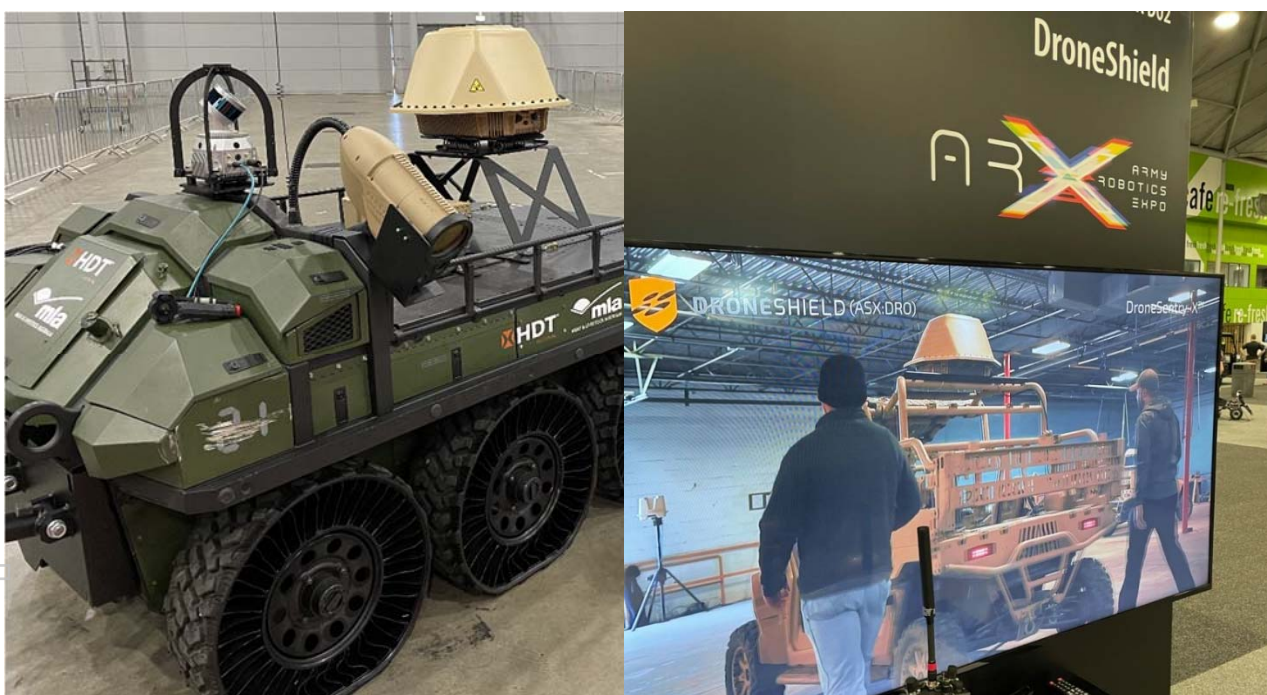


Image: DroneShield's DroneSentry-X™ system on an Unmanned Ground Vehicle, and the DroneShield stand, at the Australian Army's Robotics Expo (ARX)

DroneShield was included, for another consecutive year, in the Australian Defence Sales catalogue, unveiled by Hon Melissa Price, Australian Defence Industry Minister. The Catalogue is a key brief by the Australian Government for foreign defence purchasers looking for Australian capability providers.

DroneShield's US events included West Virginia Mock Prison Riot, the National Sheriff's Association meeting in Phoenix Arizona, and the 19th Law Enforcement Equipment and Technology Expo hosted by U.S. Customs and Border Patrol (CBP). DroneShield also participated at the US Army's AUSA Conference, Defense in Depth (DiDEX) and Maneuver and Fires Integrated Experiment (MIFX) events, as well as Sea Air Space.





Image: DroneSentry-X on ForcePro vehicle (DroneShield's Netherlands partner)

### Industry Recognition

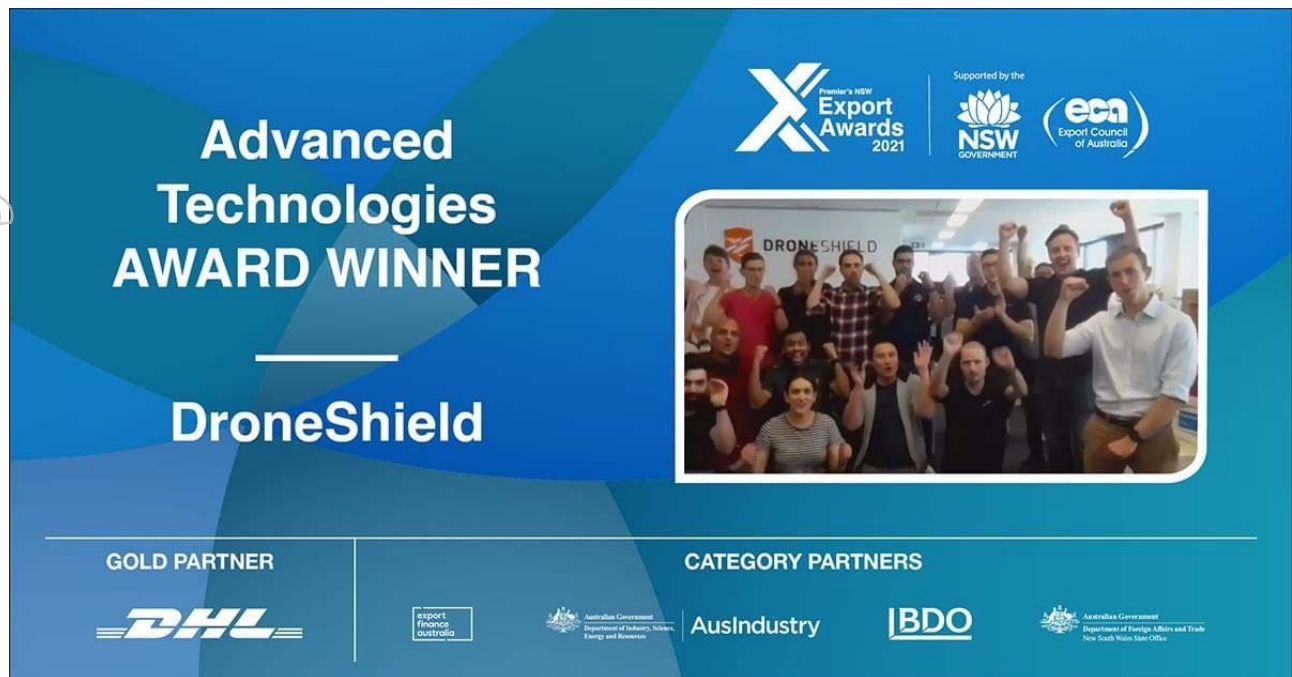
DroneOptID™ Artificial Intelligence/Machine Learning computer vision software won two awards at the 2021 NSW iAwards - the Australian Information Industry Association's awards program that celebrates excellence in Australian Innovation. DroneOptID™ was developed with the University of Technology Sydney (UTS) under the Defence Innovation Network (DIN) grant scheme.



Image: DroneShield engineer Guillaume Jounel winning the 2021 iAwards, for the DroneOptID™ computer vision AI project, developed in conjunction with UTS under a defence grant



DroneShield was selected as the Advanced Technologies Award winner in the Premier's NSW Export awards:



DroneShield won Defence Innovator of the Year and Engineer of the Year Awards at the DefenceConnect event in late 2021:





The Company also won the InnovationAus award in the Defence category:



DroneShield launched a major website upgrade, enhancing its brand presence and enabling additional content, with an increased amount of digital engagement since the start of COVID-19.

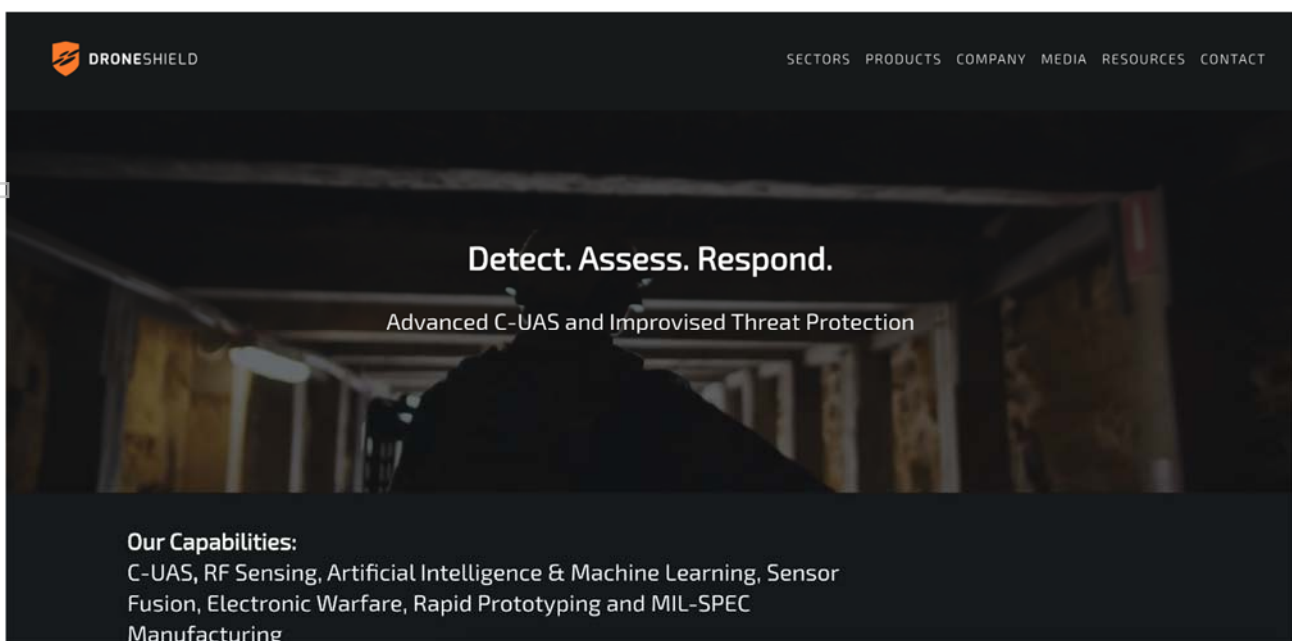


Image: enhanced DroneShield website ([www.droneshield.com](http://www.droneshield.com))

DroneShield CEO Oleg Vornik authored a number of opinion articles on greyzone/asymmetric and robotic warfare, published in a range of mainstream and defence media channels, underscoring DroneShield's thought leadership:



**OPINION: Of [Robotic] Mice and Men: When Cyborgs Go to War - APDR**  
asiapacificdefencereporter.com • 4 min read



**Hit the biggest guy first: Vulnerability of vehicles in a modern battlezone**  
defenceconnect.com.au • 4 min read

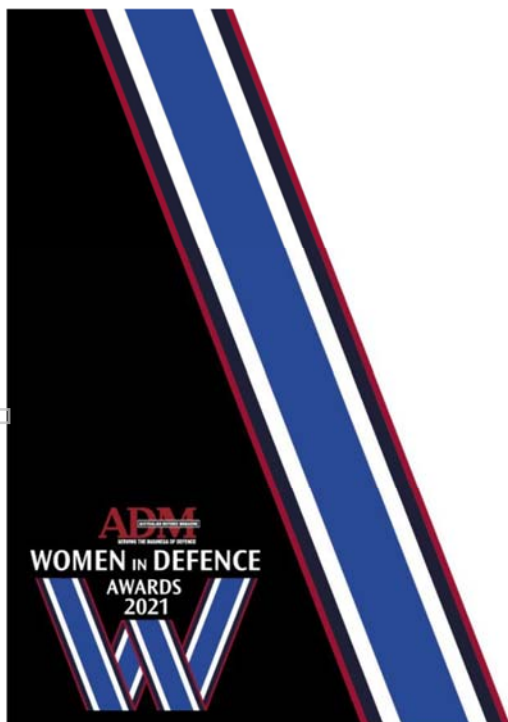


**Op-Ed: AI warfare – Faster, un-emotional and needing microprocessors**  
defenceconnect.com.au • 3 min read



**Hi-tech warfare leaves Australia vulnerable**  
theaustralian.com.au • 5 min read

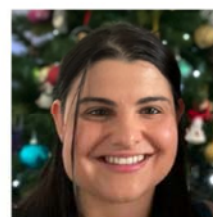
Carla Balanco, DroneShield's CFO and Company Secretary, was recognised as a finalist in the ADM Women in Defence Awards:



## LEGAL/CONTRACTING



Kaylene Askew  
LUMINACT PTY LTD



Carla Balanco  
DRONESHIELD LIMITED



Elizabeth Cooke  
ROYAL AUSTRALIAN NAVY



Melinda Halliday  
CORAS SOLUTIONS



Alison Whittaker  
BAE SYSTEMS AUSTRALIA

Image: DroneShield CFO Carla Balanco recognised as a finalist in ADM's Women in Defence Awards during 2Q21

### Principal Activities

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

### Significant Changes in the State of Affairs

Other than discussed in the Review of Operations above, there have been no significant changes in the state of affairs of the Company during the year ended 31 December 2021.

### Significant Events after the Balance Date

Subsequent to 31 December 2021, the following occurred;

- 12 January 2022
  - 14,650,000 unlisted and vested Class X options were issued to employees. Each are exercisable at \$0.25 per option and expire on 12 January 2024.
  - 600,000 unlisted and vested Class Y options were issued to employees. Each are exercisable at \$0.25 per option and expire on 12 January 2027.
  - 100,000 unlisted and vested Class Z options were issued to an employee. Each are exercisable at \$0.20 per option and expire on 12 April 2022.
- 21 January 2022
  - 250,000 unlisted and vested Class Y options were issued to an employee. Each are exercisable at \$0.25 per option and expire on 12 January 2027.

### Likely developments and expected results of operations

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

### Environmental regulation

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

### Dividends

No dividends were declared or paid to shareholders during the financial year (2020: \$nil).

### Insurance of officers

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

### Proceedings on behalf of the Company

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

### Non-audit services

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

Details of the amounts paid or payable to the auditor (HLB Mann Judd Assurance (NSW) Pty Ltd) for audit and non-audit services provided during the year are outlined in Note 27 of the financial statements.

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

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

### 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 47.

## Directors' Report- Remuneration Report (audited)

### Executive remuneration governance

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

### Remuneration committee

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

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

### Directors' remuneration

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

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

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

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

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

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

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

### Executive remuneration framework

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

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



## Directors' Report- Remuneration Report *continued*

### Executive remuneration framework *continued*

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

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

### KMP remuneration disclosures in detail

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

Name	Position	Effective date
Non-Executive Directors		
Peter James	Independent Non-Executive Chairman	Appointed as Independent Non-Executive Chairman 1 April 2016. Served as Executive Chairman from 2 December 2016. Returned to Independent Non-Executive Chairman 24 January 2017.
Jethro Marks	Independent Non-Executive Director	Appointed 16 January 2020.
Executive Director		
Oleg Vornik	Executive Director, Managing Director and CEO	Appointed as CEO and Managing Director 24 January 2017.



## Directors' Report- Remuneration Report *continued*

### Shareholdings of KMP

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

31 December 2021	Opening balance (Number)	(a) Received during the year on exercise of options (Number)	(b) Other changes during the year (Number)	Balance at 31 December 2021 (Number)
<b>Non-Executive Directors</b>				
Peter James	3,452,522	6,600,000	-	10,052,522
Jethro Marks	83,333	500,000	-	583,333
<b>Executive Director</b>				
Oleg Vornik	4,370,022	12,400,000	57,000	16,827,022
<b>Total</b>	<b>7,905,877</b>	<b>19,500,000</b>	<b>57,000</b>	<b>27,462,877</b>

### Notes

- (a) The options exercised by Jethro Marks during the year were exercised at \$0.25 per share, using a limited recourse loan provided by the Company. The loan is interest free and due for repayment by June 2026. The loan is non-recourse except against the shares issued on exercise of the options and are held by Jethro Marks. The options exercised by Peter James and Oleg Vornik were Zero Price ("Zepo") options, which vested during the year.
- (b) Shares purchased during the year.

31 December 2020	Opening balance (Number)	Received during the year on exercise of options (Number)	Other changes during the year (Number)	Balance at 31 December 2020 (Number)
<b>Non-Executive Directors</b>				
Peter James	3,170,435	132,500	149,587	3,452,522
Jethro Marks	-	83,333	-	83,333
Robert Clisdell	745,435	-	-	(a)
<b>Executive Director</b>				
Oleg Vornik	3,970,435	250,000	149,587	4,370,022
<b>Total</b>	<b>7,886,305</b>	<b>465,833</b>	<b>299,174</b>	<b>7,905,877</b>

### Notes

- (a) Robert Clisdell resigned as a director on 16 January 2020 and therefore his share options holdings are no longer shown in the table above as he no longer is a member of key management personnel.

## Directors' Report- Remuneration Report *continued*

### Share options held by KMP

31 December 2021	Opening balance (Number)	Granted as compensation (Number)	Options lapsed (Number)	(a) Options exercised (Number)	Balance at 31 December 2021 (Number)	Vested Options December 2021 (Number)	Unvested Options December 2021 (Number)
<b>Non-Executive Directors</b>							
Peter James	7,262,500	6,600,000	(6,600,000)	(6,600,000)	662,500	-	662,500
Jethro Marks	166,667	500,000	-	(500,000)	166,667	83,333	83,334
<b>Executive Director</b>							
Oleg Vornik	13,650,000	12,400,000	(12,400,000)	(12,400,000)	1,250,000	250,000	1,000,000
<b>Total</b>	<b>21,079,167</b>	<b>19,500,000</b>	<b>(19,000,000)</b>	<b>(19,500,000)</b>	<b>2,079,167</b>	<b>333,333</b>	<b>1,745,834</b>

### Notes

- (a) The options exercised by Jethro Marks during the year were exercised at \$0.25 per share, using a limited recourse loan provided by the Company. The loan is interest free and due for repayment by June 2026. The loan is non-recourse except against the shares issued on exercise of the options and are held by Jethro Marks. The options exercised by Peter James and Oleg Vornik were Zero Price ("Zepo") options, which vested during the year.

31 December 2020	Opening balance (Number)	Granted as compensation (Number)	Options lapsed (Number)	(a) Options exercised (Number)	Balance at 31 December 2020 (Number)	Vested Options December 2020 (Number)	Unvested Options December 2020 (Number)
<b>Non-Executive Directors</b>							
Peter James	7,395,000	-	-	(132,500)	7,262,500	-	7,262,500
Jethro Marks	-	250,000	-	(83,333)	166,667	-	166,667
Robert Clisdell	1,795,000	-	-	-	-	-	(a)
<b>Executive Director</b>							
Oleg Vornik	13,900,000	-	-	(250,000)	13,650,000	-	13,650,000
<b>Total</b>	<b>23,090,000</b>	<b>250,000</b>	<b>-</b>	<b>(465,833)</b>	<b>21,079,167</b>	<b>-</b>	<b>21,079,167</b>

### Notes

- (a) Robert Clisdell resigned as a director on 16 January 2020 and therefore his share options holdings are no longer shown in the table above as he no longer is a member of key management personnel.

## Directors' Report- Remuneration Report *continued*

### Performance based remuneration granted and exercised during the year

	31 December 2021		31 December 2020	
	(a) Value granted \$	(b) Value exercised \$	(a) Value granted \$	(b) Value exercised \$
<b>Non-Executive Directors</b>				
Peter James	1,122,000	1,122,000	-	86,125
Jethro Marks	33,179	33,179	7,287	54,166
<b>Executive Directors</b>				
Oleg Vornik	2,232,000	2,232,000	-	162,500
<b>Total</b>	<b>3,387,179</b>	<b>3,387,179</b>	<b>7,287</b>	<b>302,791</b>

### Notes

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

### Terms and conditions of the share-based payment arrangements

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Class of Options issued during 2021	Number of Options	Grant date	Vesting date	Expiry date	Exercise Price	Value per option at grant date \$	Performance achieved	% Vested during 2021
ZEPO	12,400,000	26-May-21	16-Aug-21	31-Aug-24	-	0.22	Yes	100%
ZEPO	6,600,000	27-May-21	16-Aug-21	31-Aug-24	-	0.22	Yes	100%
U	500,000	26-May-21	27-May-21	27-May-24	0.25	0.07	Yes	100%

Class of Options issued during 2020	Number of Options	Grant date	Vesting date	Expiry date	Exercise Price	Value per option at grant date \$	Performance achieved	% Vested during 2020
Q	83,333	28-Aug-20	30-Nov-20	30-Jun-23	0.65	0.0291	Yes	100%
Q	83,333	28-Aug-20	30-Nov-21	30-Jun-23	0.65	0.0291	to be determined	n/a
Q	83,333	28-Aug-20	30-Nov-22	30-Jun-23	0.65	0.0291	to be determined	n/a

## Directors' Report- Remuneration Report *continued*

### Remuneration details of KMP

31 December 2021	Salary and fees \$	Movement in employee provisions \$	Cash incentive \$	Post-employment benefits \$	Termination payment \$	Share based payments (options) \$	Total \$
Non-Executive Directors							
Peter James	99,993	-	45,455	-	-	210,440	355,888
Jethro Marks	50,000	-	-	-	-	36,022	86,022
Executive Director							
Oleg Vornik (a)	307,369	63,727	150,000	22,631	-	419,107	962,834
<b>Total</b>	<b>457,362</b>	<b>63,727</b>	<b>195,455</b>	<b>22,631</b>	<b>-</b>	<b>665,569</b>	<b>1,404,744</b>

31 December 2020	Salary and fees \$	Movement in employee provisions \$	Cash incentive \$	Post-employment benefits \$	Termination payment \$	Share based payments (options) \$	Total \$
Non-Executive Directors							
Peter James	94,996	-	-	-	-	431,681	526,677
Jethro Marks	44,651	-	-	-	-	3,459	48,110
Robert Clisdell (a)	1,290	-	-	-	-	207,821	209,111
Executive Director							
Oleg Vornik	299,730	17,752	-	21,348	-	849,193	1,188,023
<b>Total</b>	<b>440,667</b>	<b>17,752</b>	<b>-</b>	<b>21,348</b>	<b>-</b>	<b>1,492,154</b>	<b>1,971,921</b>

### Notes

- (a) Robert Clisdell resigned as a director on 16 January 2020.



## Directors' Report- Remuneration Report *continued*

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

	Fixed		Performance	
	2020	2021	2020	2021
Non-Executive Directors				
Peter James	18%	28%	82%	72%
Jethro Marks	n/a	58%	n/a	42%
Executive Director				
Oleg Vornik	29%	41%	71%	59%

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

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

Name	Positions held during the year	Key terms of employment agreement
Oleg Vornik	CEO and Managing Director	<ul style="list-style-type: none"> <li>- Base remuneration of \$330,000 p.a.</li> <li>- Eligible to participate in short term incentive program</li> <li>- Eligible to participate in long term incentive program</li> <li>- A notice period of 3 months, except in defined circumstances</li> <li>- No fixed term</li> </ul>

### Advisory Board remuneration

During the year, there was no Advisory Board.

	Salary and Fees \$	Share based payments (options) \$	Total \$
31 December 2020			
Hon. Jay M Cohen	-	-	-
<b>Total</b>	-	-	-

End of Remuneration Report.

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

Peter James  
Independent Non-Executive Chairman  
Sydney, NSW  
22 February 2022



### Auditor's Independence Declaration

To the directors of DroneShield Limited:

As lead auditor for the audit of the consolidated financial report of DroneShield Limited for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

A handwritten signature in black ink, appearing to read 'N J Guest'.

Sydney, NSW  
22 February 2022

**N J Guest**  
Director

**[hlb.com.au](http://hlb.com.au)**

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

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd is a member of HLB International, the global advisory and accounting network.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	31 December 2021 \$	31 December 2020 \$
<b>Revenue</b>	<b>3</b>	<b>10,598,124</b>	<b>5,557,736</b>
Other income	4	345,687	325,836
Cost of sales		(2,849,001)	(1,826,864)
Product development expense		(5,569,604)	(3,287,028)
Sales and customer service expense		(2,832,455)	(1,778,252)
Corporate and support expense	5	(4,253,768)	(2,626,681)
Corporate governance expense	6	(669,222)	(590,627)
Share based payment expense	8	(1,168,041)	(2,524,702)
<b>Loss before income tax</b>		<b>(6,398,280)</b>	<b>(6,750,582)</b>
Income tax benefit	7	1,087,833	883,592
<b>Loss after income tax</b>		<b>(5,310,447)</b>	<b>(5,866,990)</b>
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		136,376	9,922
<b>Total comprehensive loss for the period</b>		<b>(5,174,071)</b>	<b>(5,857,068)</b>
Basic loss per share	21	(0.01)	(0.02)
Diluted loss per share	21	(0.01)	(0.02)

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

# Consolidated Statement of Financial Position

	Note	31 December 2021 \$	31 December 2020 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	9,419,235	7,858,738
Trade and other receivables	10	859,131	3,710,494
Inventories	11	6,915,939	2,018,279
Other investments	12	75,000	8,430,034
<b>Total current assets</b>		<b>17,269,305</b>	<b>22,017,545</b>
<b>Non-current assets</b>			
Plant, equipment and intangible assets	13	1,028,471	874,115
Right-of-use assets	14	-	236,973
Other investments	12	42,900	-
<b>Total non-current assets</b>		<b>1,071,371</b>	<b>1,111,088</b>
<b>Total assets</b>		<b>18,340,676</b>	<b>23,128,633</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		478,382	884,363
Provisions	15	408,631	184,007
Other liabilities	16	1,566,894	1,994,265
Lease liabilities	17	152,985	135,461
Borrowings	18	56,584	107,043
<b>Total current liabilities</b>		<b>2,663,476</b>	<b>3,305,139</b>
<b>Non-current liabilities</b>			
Provisions	15	54,995	-
Lease liabilities	17	38,802	191,108
Borrowings	18	-	42,953
<b>Total non-current liabilities</b>		<b>93,797</b>	<b>234,061</b>
<b>Total liabilities</b>		<b>2,757,273</b>	<b>3,539,200</b>
<b>Net assets</b>		<b>15,583,403</b>	<b>19,589,433</b>
<b>EQUITY</b>			
Share capital	19	36,983,156	37,283,293
Reserves		5,299,211	7,765,812
Accumulated losses		(26,698,964)	(25,459,672)
<b>Total equity</b>		<b>15,583,403</b>	<b>19,589,433</b>

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 \$
<b>Balance at 1 January 2020</b>	<b>21,012,607</b>	<b>6,157,367</b>	<b>(22,090)</b>	<b>(20,496,771)</b>	<b>6,651,113</b>
Transfer from option reserve to accumulated losses	-	(904,089)	-	904,089	-
<i>Transactions with owners in their capacity as owners:</i>					
Options issued	-	2,524,702	-	-	2,524,702
Contributions of equity, net of transaction costs	16,099,895	-	-	-	16,099,895
Repayment of management/ employee option exercise loan	170,791	-	-	-	170,791
	<u>16,270,686</u>	<u>2,524,702</u>	<u>-</u>	<u>-</u>	<u>18,795,388</u>
Exchange difference on translation of foreign operations	-	-	9,922	-	9,922
Loss for the period	-	-	-	(5,866,990)	(5,866,990)
Total comprehensive loss for the period	<u>-</u>	<u>-</u>	<u>9,922</u>	<u>(5,866,990)</u>	<u>(5,857,068)</u>
<b>Balance at 31 December 2020</b>	<b><u>37,283,293</u></b>	<b><u>7,777,980</u></b>	<b><u>(12,168)</u></b>	<b><u>(25,459,672)</u></b>	<b><u>19,589,433</u></b>
<b>Balance at 1 January 2021</b>	<b>37,283,293</b>	<b>7,777,980</b>	<b>(12,168)</b>	<b>(25,459,672)</b>	<b>19,589,433</b>
Transfer from option reserve to accumulated losses	-	(3,771,018)	-	3,771,018	-
<i>Transactions with owners in their capacity as owners:</i>					
Net share-based payments movement	-	1,168,041	-	-	1,168,041
Equity transaction costs	(300,137)	-	-	300,137	-
	<u>(300,137)</u>	<u>1,168,041</u>	<u>-</u>	<u>300,137</u>	<u>1,168,041</u>
Exchange difference on translation of foreign operations	-	-	136,376	-	136,376
Loss for the period	-	-	-	(5,310,447)	(5,310,447)
Total comprehensive loss for the period	<u>-</u>	<u>-</u>	<u>136,376</u>	<u>(5,310,447)</u>	<u>(5,174,071)</u>
<b>Balance at 31 December 2021</b>	<b><u>36,983,156</u></b>	<b><u>5,175,003</u></b>	<b><u>124,208</u></b>	<b><u>(26,698,964)</u></b>	<b><u>15,583,403</u></b>

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

# Consolidated Statement of Cash Flows

	Note	31 December 2021 \$	31 December 2020 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		13,444,547	3,660,494
Payments to suppliers and employees		(21,060,606)	(10,026,619)
Other receipts		79,200	
Research and Development Tax and other incentives received		1,227,121	1,706,555
<b>Net cash flows used in operating activities</b>	<b>29</b>	<b>(6,309,738)</b>	<b>(4,659,570)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(467,452)	(772,158)
<b>Net cash flows used in investing activities</b>		<b>(467,452)</b>	<b>(772,158)</b>
<b>Cash flows from financing activities</b>			
Interest income on cash deposits		35,827	23,657
Proceeds from share and option issue		-	16,967,000
Proceeds from borrowings		-	750,368
Repayment of borrowings		-	(600,000)
Borrowings transaction costs		-	(12,000)
Payments for lease liabilities		(122,033)	(114,277)
Share issue transaction costs		-	(876,344)
Repayment of employee loans		-	170,791
<b>Net cash flows (used in) from financing activities</b>		<b>(86,206)</b>	<b>16,309,195</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>16,288,772</b>	<b>5,485,000</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(6,863,396)</b>	<b>10,877,467</b>
Exchange rate adjustments to balances held in foreign currencies		111,759	(73,695)
<b>Cash and term deposits at the end of the year</b>	<b>9 &amp; 12</b>	<b>9,537,135</b>	<b>16,288,772</b>

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

# Notes to the Financial Statements

## Corporate Information

The consolidated financial report of DroneShield Limited ("the Company") and its controlled entities ("DroneShield" or "the Group") for the year ended 31 December 2021 was authorised for issue in accordance with a resolution of the Directors on 21 February 2022.

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

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

## Statement of compliance

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

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

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

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

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

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

### 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.

For the year ended 31 December 2021, the Group incurred a loss after income tax of \$5,310,447 and net cash outflows from operating activities of \$6,309,738, with cash on hand and term deposits at 31 December 2021 of \$9,537,135. At 31 December 2021, the Group had net assets of \$15,583,403 and an excess of current assets over current liabilities of \$14,605,829.

The Group's ability to continue as a going concern beyond this period is dependent on the availability of existing cash assets and term deposits as well as generating revenues from operations. A cash flow forecast for the next 12 months prepared by management has indicated that the Group will have sufficient sales opportunities 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) Principles of consolidation

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

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



## Notes to the Financial Statements *continued*

### (c) Foreign currency translation

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

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

### (d) Revenue recognition

The Group recognises revenue from the following major sources:

- Sale of hardware
- Subscription services
- Services

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

#### *Sale of hardware*

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

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

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

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

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

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

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

#### *Subscription services*

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

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

## Notes to the Financial Statements *continued*

### Services

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

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

### Interest income

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

### Government grant income

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

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

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

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

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

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

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

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

The research and development tax incentive claim is recognised as income tax revenue in the period in which it is received.

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

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

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

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

## Notes to the Financial Statements *continued*

### (g) Cash and cash equivalents

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

### (h) Trade and other receivables

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

Payment for hardware sales and subscription services are due from the customer on the date the invoice is issued. Contracts do not include financing components.

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

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 or 1 January 2022 respectively and the corresponding historical credit losses experienced within this period.

### (i) Trade and other payables

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

### (j) Inventories

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

### (k) Leases

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

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

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

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

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

## Notes to the Financial Statements *continued*

### (l) Employee benefits

#### *Wages, salaries and annual leave*

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

#### *Long service leave*

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

#### *Post-employment benefits*

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

### (m) Provisions, contingent liabilities and contingent assets

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

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

### (n) Contributed equity

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

### (o) Plant and equipment

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

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

Office equipment	2 – 5 years
Plant & Equipment	2 – 5 years
Demonstration equipment	2 years
Vehicles and Trailers	8 years

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

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

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

### (p) Intangible assets

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



## Notes to the Financial Statements *continued*

### (q) Earnings per share

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

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

### (r) Research and development

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

### (s) Share-based payments

Share based compensation benefits are provided to employees via an Employee Option Plan. Information in relation to this plan is set out in Note 8.

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

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

### (t) Impairment of assets

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

### (u) Segment reporting

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

### (v) Comparative disclosures

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

### (w) New accounting standards and interpretations

DroneShield has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. There has been no material impact on the Group on the adoption of these new standards.

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

# Notes to the Financial Statements *continued*

## 2. Critical accounting judgements, estimates and assumptions

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

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

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

### *Licence 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 they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liability within the next annual reporting period but may impact profit or loss and equity. Details of the key assumptions used are set out in Note 8.

### *Inventories*

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

### *Demonstration Units*

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

### *Leases*

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

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

## Notes to the Financial Statements *continued*

	31 December 2021 \$	31 December 2020 \$
<b>3. Revenue</b>		
Demonstration revenue	-	16,455
Hardware sales	7,208,348	4,710,275
Services revenue	2,833,003	134,084
Shipping revenue	231,672	148,281
Subscription revenue	189,081	16,782
Warranty revenue	4,193	-
<b>Total revenue from sales</b>	<b>10,466,297</b>	<b>5,025,877</b>

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 28).

### Timing of revenue recognition

#### At a point in time

Hardware sales including shipping income

<i>direct sales</i>	3,854,433	928,138
<i>distributors</i>	3,585,587	3,930,418

Demonstration revenue

<i>distributors</i>	-	16,455
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#### Over time

Subscription services

<i>direct sales</i>	88,170	15,000
<i>distributors</i>	100,911	1,782

Services revenue

<i>direct sales</i>	2,767,231	134,084
<i>distributors</i>	65,772	-

Warranty Revenue

<i>distributors</i>	4,193	-
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<b>Total revenue from sales</b>	<b>10,466,297</b>	<b>5,025,877</b>
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### Other revenue

Interest revenue	35,827	23,660
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Revenue for achieving customer performance targets	-	383,148
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Other revenue	-	125,051
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Sublease revenue	96,000	-
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<b>Total other revenue</b>	<b>131,827</b>	<b>531,859</b>
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<b>Total revenue</b>	<b>10,598,124</b>	<b>5,557,736</b>
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### 4. Other income

Awards and incentives revenue (Note a)	269,170	823,348
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Net foreign exchange gains (losses)	76,517	(497,512)
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<b>Total other gains</b>	<b>345,687</b>	<b>325,836</b>
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Note a: Awards and incentives revenue comprises of government and industry assistance including the JobKeeper scheme.

## Notes to the Financial Statements *continued*

	31 December 2021 \$	31 December 2020 \$
<b>5. Corporate and support expense</b>		
Legal	344,091	151,411
Office costs and communication	1,019,318	443,885
Other	424,964	420,912
Payroll	1,529,157	985,527
Professional expenses	908,625	610,298
Travel and entertainment	27,613	14,648
<b>Total corporate and support expense</b>	<b>4,253,768</b>	<b>2,626,681</b>
<b>6. Corporate governance expense</b>		
ASX fees	94,746	105,771
Audit	84,916	71,879
Board and Advisory Board expenses	195,449	141,909
Insurance	163,893	133,718
Other	56,850	81,941
Professional expenses	73,368	55,409
<b>Total corporate governance expense</b>	<b>669,222</b>	<b>590,627</b>
<b>7. Income taxes relating to continuing operations</b>		
The components of tax recognised in profit or loss include:		
Current tax	-	-
Deferred tax	-	-
Research and Development Tax Incentive	(1,087,833)	(883,592)
<b>Total tax benefit</b>	<b>(1,087,833)</b>	<b>(883,592)</b>
The income tax for the year can be reconciled to the accounting profit as follows:		
Income tax benefit calculated at 27.5%	(1,759,527)	(1,856,410)
Tax effect of amounts which are not deductible	321,211	694,293
Research and Development Tax Incentive	(1,087,833)	(883,592)
Effect of unused tax losses not recognised as deferred tax assets	1,438,316	1,162,117
<b>Income tax benefit recognised in profit or loss (relating to continuing operations)</b>	<b>(1,087,833)</b>	<b>(883,592)</b>

The tax rate used for the 2021 and 2020 reconciliations above is the corporate tax rate of 27.5% payable by DroneShield Limited on taxable profits under Australian tax law.

The Company has unused tax losses of \$10,517,697 (2020: \$9,079,381). The benefit of these losses will only be recognised where it is probable that future taxable profit will be available against which the benefit of the deferred tax asset can be utilised. The deferred tax asset not recognised in relation to these tax losses is \$2,892,367 (2020: \$4,143,170).



## Notes to the Financial Statements *continued*

### 8. Options issued

During the year ended 31 December 2021, a number of options were issued to Directors, management and other employees of the Group as well as to brokers participating in the Share Placement that occurred in August 2020. In addition to this, a number of options did not meet the vesting conditions during the period. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and December 2021.

Options Issued 31 December 2021	Class T Options	Class U Options	Class V <sup>1</sup> Options	Class W Options	Zero Price <sup>2</sup> Options	Other Options <sup>3</sup>	Total option expense for the year <sup>4</sup>
No of new options	3,570,000	500,000	5,000,000	450,000	21,459,384		
Expiry (years)	0.35	3.01	3.00	3.00	3.37		
Exercise price (\$)	0.20	0.25	0.25	0.20	0		
Average vesting period (years)	0.00	0.00	0.00	0.00	0.33		
Underlying volatility	70.0%	70.0%	70.0%	70.0%	n/a		
Average risk-free interest rate	0.05%	0.14%	0.10%	0.14%	n/a		
Average calculated fair value of each option (\$)	0.0204	0.0664	0.0600	0.0651	0.1780		
Total expense recorded for the period ended 31 December 2021 (\$)	65,125	33,179	-	29,213	3,354,000	(2,313,476)	1,168,041

<sup>1</sup> Class V options were issued to brokers as part of the August 2020 capital raise and included as part of share transaction costs which is treated as a deduction from equity of \$300,137 (see Note 19).

<sup>2</sup> 19,000,000 of the Zero Price Options ("ZEPOs") was issued to Directors. The vesting conditions were satisfied and the options were exercised into shares on 16 August 2021. 2,459,384 of the ZEPOs was issued to management and employees. These options automatically lapsed, during the year, as the vesting conditions attached to Tranche 1 ZEPOs, issued in 2018, were satisfied.

<sup>3</sup> \$2,313,476 comprises of a credit for Tranche 1 ZEPOs (issued in 2018) and a vesting expense for Tranche 2 ZEPOs and Class Q options (issued in 2019 and 2020). The expense recognised in prior periods for Tranche 1 ZEPOs was credited due to the vesting conditions not being met within 36 months from the date of issue of the Tranche 1 ZEPOS. Refer to 2020 Annual Report for details of options issued in prior periods.

<sup>4</sup> During the year, limited-recourse loans were issued to certain employees and directors, where the company provided interest free loans for conversion of options previously issued by the company. In total, 6,886,666 options were converted into ordinary shares, at various exercise prices. The loans are due for repayment within 5 years from the date of inception. The loans are non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates. Non-recourse loans issued are treated as a modification of the option under the Accounting Standards. No additional expense has been recognised in relation to these modifications.

## Notes to the Financial Statements *continued*

### Options issued (*continued*)

During the year ended 31 December 2020, a number of options were issued to Directors, management and other employees of the Group. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and December 2020.

Options Issued 31 December 2020	Class F Options	Class Q Options	Class S Options	Zero Price Options <sup>1</sup>	Other Options <sup>2</sup>	Total option expense for the year <sup>3</sup>
No of new options	1,150,000	750,000	2,200,000	500,000		
Expiry (years)	0.79	3.45	3.01	2.87		
Exercise price (\$)	0.30	0.65	0.25	0		
Average vesting period (years)	0	1.87	0.00	2.87		
Underlying volatility	87.7%	87.7%	87.7%	n/a		
Average risk-free interest rate	0.21%	0.76%	0.11%	n/a		
Average calculated fair value of each option (\$)	0.0241	0.0876	0.0794	0.2350		
Total expense recorded for the period ended 31 December 2020 (\$)	27,626	30,344	174,597	38,979	2,253,156	2,524,702

<sup>1</sup> 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. At this stage, the vesting period is assumed to be three years, which will be reviewed against updated pipeline and forecasts each six months.

<sup>2</sup> \$2,253,156 relates to the vesting expense from options issued in prior periods, comprising option expense for Tranche 2 Zepos, Classes N, P and Q (issued in 2019), Tranche 1 Zepos (issued in 2018). Refer to 2018 and 2019 Annual Report for details of options issued in prior periods.

<sup>3</sup> During the year, limited-recourse loans were issued to certain employees and directors, where the company provided interest free loans for conversion of options previously issued by the company. In total, 1,682,500 options were converted into ordinary shares, at various exercise prices. The loans are due for repayment by December 2025. The loans are non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates. Non-recourse loans issued are treated as a modification of the option under the Accounting Standards. No additional expense has been recognised in relation to these modifications.

## Notes to the Financial Statements *continued*

	31 December 2021 \$	31 December 2020 \$
<b>9. Cash and cash equivalents</b>		
Cash at bank and in hand	5,660,677	4,158,819
Short-term deposits	3,758,558	3,699,919
<b>Total cash and cash equivalents</b>	<b>9,419,235</b>	<b>7,858,738</b>
<b>10. Trade and other receivables</b>		
Trade receivables	389,085	2,669,714
Deferred revenue (see Note 16)	131,278	816,438
Prepayments	338,768	224,342
<b>Total trade and other receivables</b>	<b>859,131</b>	<b>3,710,494</b>
<i>Age of receivables that are past due but not impaired.</i>		
>120 days	-	2,363,746
Payment for hardware sales and subscription services are due from the customer as per the terms specified in the contract.		
<b>11. Inventories</b>		
Raw materials	1,188,047	-
Finished goods	935,381	736,238
Work in progress	4,792,511	1,282,041
<b>Total Inventory</b>	<b>6,915,939</b>	<b>2,018,279</b>
<b>12. Other investments</b>		
Current	75,000	8,430,034
- <i>Term Deposits</i>		
Non-current		
- <i>Term Deposits</i>	42,900	-
<b>Total Other investments</b>	<b>117,900</b>	<b>8,430,034</b>

## Notes to the Financial Statements *continued*

### 13. Plant, equipment and intangible assets

	Development equipment \$	Demonstration equipment \$	Office equipment \$	Plant & equipment \$	Vehicles and Trailers \$	Intangible Assets (software) \$	Total \$
<b>Balance at 1 Jan 20</b>	<b>217,637</b>	<b>428,364</b>	<b>123,109</b>	<b>351,900</b>	<b>-</b>	<b>37,632</b>	<b>1,158,642</b>
Additions	225,749	42,325	80,302	4,531	153,656	13,392	519,955
Disposals	-	(23,780)	(6,943)	-	-	-	(30,723)
Transfers from (to) other fixed asset categories	(128,426)	128,426	-	-	-	-	-
Transfer from (to) inventory	(185,246)	(76,028)	-	-	-	-	(261,274)
Depreciation/amortisation	-	(317,994)	(80,355)	(81,775)	(3,239)	(10,818)	(494,181)
Exchange differences	-	(6,066)	(810)	-	(11,428)	-	(18,304)
<b>Balance at 31 Dec 20</b>	<b>129,714</b>	<b>175,247</b>	<b>115,303</b>	<b>274,656</b>	<b>138,989</b>	<b>40,206</b>	<b>874,115</b>
Additions	142,005	62,084	122,471	114,051	49,706	14,785	505,102
Disposals	-	25,774	8,164	-	-	(2,159)	31,779
Transfer from (to) inventory	(174,356)	229,898	-	-	-	-	55,542
Depreciation/amortisation	-	(174,087)	(96,089)	(96,908)	(21,805)	(14,610)	(403,499)
Exchange differences	-	(27,039)	(13,675)	-	6,146	-	(34,568)
<b>Balance at 31 Dec 21</b>	<b>97,363</b>	<b>291,877</b>	<b>136,174</b>	<b>291,799</b>	<b>173,036</b>	<b>38,222</b>	<b>1,028,471</b>

	Cost \$	Accumulated Depreciation \$	Carrying Value \$
Development equipment	97,363	-	97,363
Demonstration equipment	917,027	(625,150)	291,877
Office equipment	319,859	(183,685)	136,174
Plant & equipment	520,183	(228,384)	291,799
Vehicles and trailers	198,434	(25,398)	173,036
Intangible assets (software)	75,655	(37,433)	38,222
<b>Balance at 31 December 2021</b>	<b>2,128,521</b>	<b>(1,100,050)</b>	<b>1,028,471</b>
Development equipment	129,714	-	129,714
Demonstration equipment	762,499	(587,252)	175,247
Office equipment	272,707	(157,404)	115,303
Plant & equipment	399,612	(124,956)	274,656
Vehicles and trailers	141,952	(2,963)	138,989
Intangible assets (software)	63,344	(23,138)	40,206
<b>Balance at 31 December 2020</b>	<b>1,769,828</b>	<b>(895,713)</b>	<b>874,115</b>



## Notes to the Financial Statements *continued*

	31 December 2021 \$	31 December 2020 \$
<b>14. Right-of-use asset</b>		
Balance at 1 January 2021	236,973	427,579
Depreciation	(105,322)	(135,140)
Impairment	(131,651)	(55,466)
<b>Balance at 31 December 2021</b>	<b>-</b>	<b>236,973</b>
The Group leases various assets including offices and storage units. The contractual lease terms range from 1 to 3 years.		
The total cash outflow for leases, including short-term leases was \$625,298. (2020: \$278,725).		
The maturity analysis of lease liabilities is presented in Note 17.		
<b>Amounts recognised in profit and loss</b>		
Depreciation expense on right-of-use assets	105,322	135,140
Expense relating to short-term leases	440,499	147,989
Impairment expense on right-of-use assets	131,651	55,466
Interest expense on lease liabilities	10,441	35,324
<b>15. Provisions</b>		
Current		
- Annual leave	408,631	184,007
Non-current		
- Long-service leave	54,995	-
<b>Total provisions</b>	<b>463,626</b>	<b>184,007</b>
<b>16. Other liabilities</b>		
Accrued expenses	310,511	132,299
Deferred Revenue		
- Hardware sales	571,293	1,646,614
- Subscription services	398,333	212,851
- Services	282,579	-
- Shipping	4,178	-
- Other revenue	-	2,501
<b>Total other liabilities</b>	<b>1,566,894</b>	<b>1,994,265</b>

## Notes to the Financial Statements *continued*

	31 December 2021 \$	31 December 2020 \$
<b>17. Lease liabilities</b>		
Amounts due for settlement within 12 months	152,985	135,461
Amounts due for settlement after 12 months	38,802	191,108
<b>Total lease liabilities</b>	<b>191,787</b>	<b>326,569</b>

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

### 18. Borrowings

#### Unsecured borrowing at amortised cost

Insurance Premium Finance	56,584	21,136
Paycheck Protection Program Term Note	-	128,860
<b>Total borrowings</b>	<b>56,584</b>	<b>149,996</b>
Amount due for settlement within 12 months	56,584	107,043
Amount due for settlement after 12 months	-	42,953

### 19. Contributed equity

	No. of shares (Note a)	\$
<b>Balance at beginning of period (1 January 2021)</b>	389,880,102	37,283,293
Shares issued following options exercised during period (Note b)	28,346,050	-
Transaction costs in relation to Shares issued from Share Placement (Note c)	-	(300,137)
<b>Balance at end of period (31 December 2021)</b>	<b>418,226,152</b>	<b>36,983,156</b>

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

Note b: During the year, 6,886,666 options were exercised using limited-recourse loans, where the company provided interest free loans for conversion of options previously issued by the company into shares. The loans are due for repayment within 5 years from the date of inception. The loans are nonrecourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates. 21,459,384 Zero Price options were exercised into shares during the year.

Note c: Included within transaction costs is the value of options issued to brokers of \$300,137. The assumptions used in valuing these options has been set out in Note 8.

## Notes to the Financial Statements *continued*

### 20. Shares and options

	Number of Shares	Number of Unlisted Options
<b>Opening balances at 1 January 2021</b>	<b>389,880,102</b>	<b>48,712,950</b>
Options exercised during the period	28,346,050	(28,346,050)
Options lapsed	-	(27,280,450)
Options issued to brokers	-	5,000,000
Options issued to Directors, Management and Employees	-	26,029,384
<b>Closing balance at 31 December 2021</b>	<b>418,226,152</b>	<b>24,115,834</b>

#### Unlisted Options

26,029,384 Unlisted Options were issued to Directors, Management and employees during the year to 31 December 2021. These Options are subject to various vesting conditions relating to length of employment with the Company and performance of the Company. See Note 8 for further details.

5,000,000 Class V Options were issued to Peloton Capital Pty Ltd (or its nominee) as part of their compensation for acting as Lead Manager for the Share Placement that occurred in August 2020. These options have an exercise price of \$0.25 and expire on 27 May 2024.

	31 December 2021 \$	31 December 2020 \$
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### 21. Earnings (loss) per share

#### (a) Basic earnings (loss) per share

Total basic earnings (loss) per share attributable to the ordinary equity holders of the company	(0.01)	(0.02)
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#### (b) Dilutive earnings per share

Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company	(0.01)	(0.02)
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#### (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	397,919,239	299,102,204
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#### Options

Unlisted Options on issue (refer to Note 20) are not included in the calculation of diluted earnings per share because they are considered to be antidilutive for the period ended 31 December 2021. These options and shares could potentially dilute basic earnings per share in future periods.

## Notes to the Financial Statements *continued*

### 22. Key Management Personnel disclosures and related party transactions

	31 December 2021 \$	31 December 2020 \$
<b>(a) KMP Compensation</b>		
Cash incentive	195,455	-
Movement in employee provisions	63,727	17,752
Post-employment benefits	22,631	21,348
Salaries and fees	457,362	440,667
Share-based payments	665,569	1,492,154
<b>Total KMP compensation</b>	<b>1,404,744</b>	<b>1,971,921</b>

Detailed remuneration disclosures are provided in the Remuneration Report on pages 40-46.

#### (b) Other transactions with related parties

During the financial year, the Group engaged the services of the following related parties on normal commercial terms and conditions no more favourable than those available to other parties:

Sort Hub Pty Ltd, of which Jethro Marks is a Director, received payments totalling \$231,250, of which \$152,208 were invoiced in the prior year. During the year, Sort Hub Pty Ltd invoiced the Company \$79,042 for shipping of inventory globally.

### 23. Parent entity financial information

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

#### Statement of financial Position

Current assets	10,383,461	23,593,483
Non-current Assets	897,987	958,614
<b>Total assets</b>	<b>11,281,448</b>	<b>24,552,097</b>
Current liabilities	1,179,366	2,061,681
Non-Current Liabilities	93,797	191,108
<b>Total liabilities</b>	<b>1,273,163</b>	<b>2,252,789</b>
<b>Net assets</b>	<b>10,008,285</b>	<b>22,299,308</b>
Share Capital	35,660,609	35,960,746
Reserves	5,175,003	7,777,980
Accumulated losses	(30,827,327)	(21,439,418)
<b>Total Equity</b>	<b>10,008,285</b>	<b>22,299,308</b>
<b>Loss for the year</b>	<b>(13,456,268)</b>	<b>(7,282,426)</b>
<b>Other comprehensive loss</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive loss</b>	<b>(13,456,268)</b>	<b>(7,282,426)</b>

DroneShield LLC, DroneShield Corporation Pty Ltd and DroneShield UK Limited are all legal subsidiaries of DroneShield Limited and are 100% owned by DroneShield Limited.



## Notes to the Financial Statements *continued*

### 24. Financial risk management

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

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

#### *Credit risk*

With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents, trade and other receivables and other investments, the Company's exposure to credit risk arises in the form of default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Management has considered impairment, with none noted at 31 December 2021.

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

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

	31 December 2021 \$	31 December 2020 \$
Cash and cash equivalents	9,419,235	7,858,738
Other investments	117,900	8,430,034
Trade and other receivables	520,363	3,486,152

#### *Liquidity risk*

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

#### *Foreign exchange risk*

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

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

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

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

	31 December 2021 \$	31 December 2020 \$
Cash	2,410,035	904,325
Trade and other receivables	332,726	2,389,702
<b>Total Financial assets</b>	<b>2,742,761</b>	<b>3,294,027</b>
Borrowings	-	(128,860)
Other liabilities	(24,939)	(6,895)
Provisions	(33,066)	(16,162)
Trade and other payables	(353,239)	(450,146)
<b>Total Financial liabilities</b>	<b>(411,244)</b>	<b>(602,063)</b>

## Notes to the Financial Statements *continued*

### Foreign exchange risk

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

	31 December 2021 \$	31 December 2020 \$
+ 10%	(193,520)	(244,596)
- 10%	136,452	299,264

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

### Financial instrument composition and maturity analysis

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

Contractual maturities of financial liabilities	Less than 6 months \$	6-12 Months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Total contractual cash flows \$	Carrying amount (assets)/ liabilities \$
<b>As at 31 December 2020</b>						
Trade and other payables	884,363	-	-	-	884,363	884,363
Borrowings	59,900	47,143	42,953	-	149,996	149,996
Lease Liabilities	65,643	69,818	152,985	38,123	326,569	326,569
Accrued Expenses	132,299	-	-	-	132,299	132,299
<b>Total</b>	<b>1,142,205</b>	<b>116,961</b>	<b>195,938</b>	<b>38,123</b>	<b>1,493,227</b>	<b>1,493,227</b>
<b>As at 31 December 2021</b>						
Trade and other payables	478,382	-	-	-	478,382	478,382
Borrowings	47,973	8,611	-	-	56,584	56,584
Lease Liabilities	74,192	78,793	38,802	-	191,787	191,787
Accrued Expenses	310,511	-	-	-	310,511	310,511
<b>Total</b>	<b>911,058</b>	<b>87,404</b>	<b>38,802</b>	<b>-</b>	<b>1,037,264</b>	<b>1,037,264</b>

### 25. Contingent liabilities

As at 31 December 2021 there were no contingent liabilities.

### 26. Commitments

At 31 December 2021, contractual agreements existed to pay suppliers \$1,210,769 for the manufacturing of inventory to deliver on orders received (2020: \$1,577,947).

## Notes to the Financial Statements *continued*

### 27. Remuneration of auditor

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

	31 December 2021 \$	31 December 2020 \$
Audit and assurance services	112,348	71,879
Taxation and other services	39,489	10,624
<b>Total Auditor's remuneration</b>	<b>151,837</b>	<b>82,503</b>

### 28. Segment information

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

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

The following tables present certain information regarding geographical segments for the years ended 31 December 2021 and 31 December 2020.

Segment performance 31 December 2021	USA \$	UK \$	Australia \$	Elimination \$	Total \$
Hardware sales including shipping income					
- <i>direct sales</i>	2,858,605	-	995,828	-	3,854,433
- <i>distributors</i>	1,273,927	-	2,311,660	-	3,585,587
Subscription services					
- <i>direct sales</i>	7,078	-	81,092	-	88,170
- <i>distributors</i>	28,881	-	72,030	-	100,911
Services Revenue					
- <i>direct sales</i>	84,454	-	2,682,777	-	2,767,231
- <i>distributors</i>	36,872	-	28,900	-	65,772
Warranty Revenue					
- <i>distributors</i>	-	-	4,193	-	4,193
<b>Total revenue from sales</b>	<b>4,289,817</b>	-	<b>6,176,480</b>	-	<b>10,466,297</b>
Other revenue	-	-	131,827	-	131,827
<b>Total revenue</b>	<b>4,289,817</b>	-	<b>6,308,307</b>	-	<b>10,598,124</b>
Depreciation	(50,152)	(2,648)	(455,139)	-	(507,939)
Loss after income tax expense	2,083,416	299,475	(7,693,338)	-	(5,310,447)
Assets and liabilities					
Segment assets	563,594	-	21,809,715	(4,032,633)	18,340,676
Segment liabilities	(4,314,724)	(3,176)	(2,472,006)	4,032,633	2,757,273

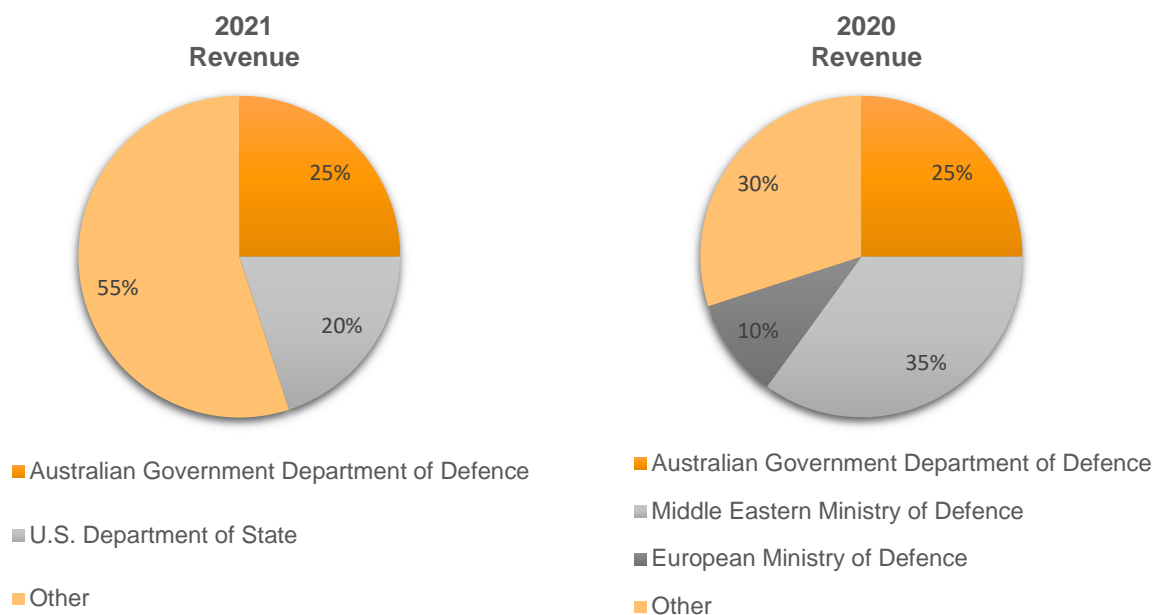
## Notes to the Financial Statements *continued*

### 28. Segment information (*continued*)

Segment performance 31 December 2020	USA \$	UK \$	Australia \$	Elimination \$	Total \$
Hardware sales including shipping income					
- <i>direct sales</i>	538,950	-	389,188	-	<b>928,138</b>
- <i>distributors</i>	-	-	3,930,418	-	<b>3,930,418</b>
Subscription services					
- <i>direct sales</i>	-	-	15,000	-	<b>15,000</b>
- <i>distributors</i>	1,782	-	-	-	<b>1,782</b>
Services Revenue					
- <i>direct sales</i>	19,204	-	114,880	-	<b>134,084</b>
- <i>distributors</i>	-	-	16,455	-	<b>16,455</b>
<b>Total revenue from sales</b>	<b>559,936</b>	-	<b>4,465,941</b>	-	<b>5,025,877</b>
Other revenue	21,891	-	509,968	-	<b>531,859</b>
<b>Total revenue</b>	<b>581,827</b>	-	<b>4,975,909</b>	-	<b>5,557,736</b>
Depreciation	(75,282)	(1,447)	(546,079)	-	<b>(622,808)</b>
Loss after income tax expense	(1,058,304)	(173,784)	(4,634,902)	-	<b>(5,866,990)</b>
Assets and liabilities					
Segment assets	316,363	4,753	30,652,468	(7,844,951)	<b>23,128,633</b>
Segment liabilities	(6,287,972)	(309,516)	(4,786,663)	7,844,951	<b>(3,539,200)</b>

#### Information about major customers

The following chart presents certain information regarding customers/distributors who contributed 10 per cent or more to the Group's revenue for the years ended 31 December 2021 and 31 December 2020.





## Notes to the Financial Statements *continued*

### 29. Reconciliation from loss after income tax to net cash outflow from operating activities

	31 December 2021 \$	31 December 2020 \$
<b>Operating loss for the year after tax</b>	<b>(5,310,447)</b>	<b>(5,866,990)</b>
Awards and incentives revenue - Paycheck Protection Program ("PPP")	(129,883)	-
Bad debts	8,218	-
Depreciation	507,939	622,808
Effects of foreign currency translation	13,105	509,168
Interest income on cash deposits	(35,827)	(23,657)
Inventory impairment expense	211,945	20,606
Loss on disposal of fixed asset	25,051	30,723
Provisions	277,876	1,424
Right-of-use asset impairment	131,651	55,466
Share option expense	1,168,041	2,524,702
Transaction costs related to loans and borrowings	-	12,000
<i>Change in operating assets and liabilities</i>		
Decrease/(Increase) in trade and other receivables	2,166,203	(2,066,772)
(Increase) in inventory	(4,897,660)	(1,292,359)
(Decrease)/increase in trade and other payables	(405,981)	486,371
(Decrease)/increase in other liabilities	(39,969)	326,940
<b>Net cash flows from (used in) operating activities</b>	<b>(6,309,738)</b>	<b>(4,659,570)</b>

### 30. 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.

The 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.

The Directors are managing and monitoring the Group's operations closely in response to COVID-19 which continues to evolve on a daily basis.

## Notes to the Financial Statements *continued*

### 31. Events after the reporting date

Subsequent to 31 December 2021, the following occurred;

- 12 January 2022
  - 14,650,000 unlisted and vested Class X options were issued to employees. Each are exercisable at \$0.25 per option and expire on 12 January 2024.
  - 600,000 unlisted and vested Class Y options were issued to employees. Each are exercisable at \$0.25 per option and expire on 12 January 2027.
  - 100,000 unlisted and vested Class Z options were issued to an employee. Each are exercisable at \$0.20 per option and expire on 12 April 2022.
- 21 January 2022
  - 250,000 unlisted and vested Class Y options were issued to an employee. Each are exercisable at \$0.25 per option and expire on 12 January 2027.

## Directors' Declaration

1. In the opinion of the Directors:
  - (a) the consolidated financial statements and notes set out on pages 48 to 74 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. The notes to the consolidated financial statements include a statement of compliance with International Financial Reporting Standards.
3. The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the year ended 31 December 2021 required by section 295A of the *Corporations Act 2001*.

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



Peter James  
Independent Non-Executive Chairman

Sydney, NSW  
22 February 2022



## Independent Auditor's Report to the Members of DroneShield Limited

### Opinion

We have audited the financial report of DroneShield Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration. In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
<b>Revenue recognition (Note 3)</b>	
The Group recognised total revenue from sales of \$10,466,297 during the year ended 31 December 2021 (2020: \$5,025,877).	We reviewed management's revenue recognition accounting policy to assess whether it complied with AASB 15.
We focussed on this area as a key audit matter due to the judgements involved in applying AASB 15 <i>Revenue from Contracts with Customers</i> .	We reviewed a sample of revenue items recorded during the year and reviewed contracts and other documentation in relation to these to assess whether revenue recognised was in accordance with the requirements of AASB 15.
	We also reviewed disclosures in the financial statements to assess whether they are in accordance with AASB 15.

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Key Audit Matter	How our audit addressed the key audit matter
<b>Existence and Valuation of inventory (Note 11)</b>	
At 31 December 2021, the Group held inventory with a carrying value of \$6,915,939 (2020: \$2,018,279).	We attended the year-end stocktake and observed the count procedures and controls.
We focussed on this area as a key audit matter due to the material value of this asset.	We agreed the physical inventory count records to the accounting inventory listing at year-end.  We tested a sample of inventory items to assess if they were valued at the lower of cost or net recoverable value in accordance with AASB 102 Inventories.  We reviewed and tested management's assessment of inventory obsolescence.  We reviewed the accounting policies adopted by the Group for inventory, and the disclosures in the financial report to ensure they meet the requirements of the accounting standards.

#### **Valuation of share options (Note 8)**

The Company has historically issued a number of share options to directors and management.	We reviewed the valuation of the options, and the methodology used. We also reviewed the key assumptions in the valuation.
The fair value of the options at grant date was determined by management, and used to account for the options.	We assessed whether the Group's disclosures met the requirements of accounting standards.
The key assumptions used in determining the fair value of the options are set out in Note 8 to the financial statements.	
We focused on this area as a key audit matter due to the judgement involved in assessing the fair value of the options.	

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

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

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### Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

## REPORT ON THE REMUNERATION REPORT

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 46 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of DroneShield Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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

HLB Mann Judd

HLB Mann Judd Assurance (NSW) Pty Ltd  
Chartered Accountants

Sydney, NSW  
22 February 2022

A handwritten signature in black ink, appearing to read 'N J Guest'.

N J Guest  
Director

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# Shareholder Information

## Holdings distribution at 21 February 2022

Holding Ranges	Holders	Total Shares	% Issued Share Capital
1 - 1,000	146	25,777	0.01%
1,001 - 5,000	2,254	7,659,461	1.83%
5,001 - 10,000	1,739	13,600,437	3.25%
10,001 - 100,000	3,412	115,244,905	27.56%
100,000 - over	544	281,695,572	67.35%
<b>Total</b>	<b>8,095</b>	<b>418,226,152</b>	<b>100.00%</b>

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

## Twenty largest shareholders at 21 February 2022

Position	Holder Name	Shares Held	% Issued Share Capital
1	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	41,805,705	10.00%
2	BETA GAMMA PTY LTD	21,500,000	5.14%
3	OLEG VORNIK	16,827,022	4.02%
4	PETER JAMES	10,052,522	2.40%
5	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,250,477	1.73%
6	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	6,054,397	1.45%
7	S R BENNETT PTY LTD <D&S BENNETT PTY LTD SF A/C>	5,717,538	1.37%
8	CITICORP NOMINEES PTY LIMITED	5,234,420	1.25%
9	CARLA BALANCO	3,200,000	0.77%
10	MR RICHARD GUY DARLING	3,194,729	0.76%
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,091,012	0.74%
12	BLACKWOOD CONSULTING PTY LTD <ROGER CAMPBELL FAMILY A/C>	2,348,240	0.56%
13	AZOTH LLC	2,250,000	0.54%
14	SUPERHERO NOMINEES PTY LTD <CLIENT A/C>	2,209,630	0.53%
15	ANGUS BEAN	2,135,621	0.51%
16	MR MARK RICHARD JONES & MS MARGARET TAI <TAI-JONES SUPER A/C>	1,800,000	0.43%
17	MR HEIN VICTOR GRAAFHUIS	1,700,000	0.41%
18	MR VOLODYMYR YATSYNA	1,501,000	0.36%
19	MR RICHARD JOFFE	1,438,157	0.34%
20	SOIRHU PTY LTD <THE BRAGG MCDONALD A/C>	1,282,362	0.31%
<b>Total</b>		<b>140,592,832</b>	<b>33.62%</b>
Balance of register		277,633,320	66.38%
<b>Total issued capital</b>		<b>418,226,152</b>	<b>100.00%</b>

The number of unquoted equity securities on issue as at 31 December 2021 was 24,115,834 held by 35 holders.

927 holders held less than a marketable parcel of DRO securities, based on the closing market price as at 31 December 2021 of \$0.175.