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@DroneShield
www.droneshield.com
ABN 26 608 915 859

Appendix 4E
For the year ended 31 December 2016

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 2016. The previous corresponding period was the year ended 31 December 2015.

Results for announcement to the market				
	Up/ Down	% Movement		2016 $
Revenue from continuing activities	Down	36%	to	84,398
Loss from continuing activities after tax attributable to members	Up	924%	to	(4,939,819)
Net loss attributable to members	Up	924%	to	(4,939,819)
Dividends: No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

2. Commentary related to the above results

Refer to Directors Report in the attached Annual Report.

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

31 December 2016: $0.03; 31 December 2015: $(533,054)

4. Details of entities over which control has been gained or lost during the year

On 22 June 2016, DroneShield Limited completed through an initial public offering the remaining condition precedent for the complete acquisition of DroneShield LLC. Note 1(b) to the audited financial report contains details of how this transaction has been accounted for.

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.

Further information regarding the company and its business activities can be obtained by visiting the company's website at www.droneshield.com

DRONESHIELD

Annual Report

For the Year Ended
31 December 2016

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Image: Swiss Police deploys DroneGun at the 2017 World Economic Forum in Davos

DroneShield Limited (ASX:DRO)
ASX Release
ABN 26 608 915 859

Table of Contents

Corporate Information 2
Chairman's Review 3
About DroneShield 5
Board of Directors and Executives 8
Corporate Governance Statement 10
Directors' Report 20
Directors' Report- Remuneration Report (audited) 24
Auditor's Independence Declaration 29
Consolidated Statement of Profit or Loss and Other Comprehensive Income 30
Consolidated Statement of Financial Position 31
Consolidated Statement of Changes in Equity 32
Consolidated Statement of Cash Flows 33
1. Summary of Significant Accounting Policies 34
2. Critical accounting judgements, estimates and assumptions 40
3. Options issued 41
4. Revenue 42
5. Other revenue and income 42
6. Corporate and support expense 42
7. Corporate governance expense 42
8. Income taxes relating to continuing operations 43
9. Cash and cash equivalents 43
10. Trade and other receivables 43
11. Inventories 43
12. Plant and equipment and intangible assets 44
13. Borrowings 44
14. Provisions 45
15. Other liabilities 45
16. Contributed equity 45
17. Commitments 46
18. Key Management Personnel disclosures and related party transactions 46
19. Parent entity financial information 47
20. Financial risk management 47
21. Earnings (loss) per share 49
22. Contingent liabilities 50
23. Remuneration of auditor 50
24. Segment information 50
25. Changes in composition of entity 51
26. Reconciliation from loss after income tax to net cash outflow from operating activities 52
27. Events after the reporting date 52
Directors' Declaration 53
Independent Auditor's Report 54
Shareholder Information 58

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Corporate Information

Directors & Management

Peter James Independent Non-Executive Chairman
Oleg Vornik CEO and Managing Director
Robert Clisdell Non-Executive Director
Dr. Samantha Ravich Independent Non-Executive Director

Registered Office

Suite 403, 18-20 Orion Road
Lane Cove West, NSW 2066
Australia

Telephone: +61 2 9995 7280

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

Auditors

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

Bankers

Commonwealth Bank of Australia
Level 21, 201 Sussex Street
Sydney, NSW 2000
Australia

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

Solicitors

Steinepreis Paganin
16 Milligan Street
Perth, WA 6000
Australia

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

Moses & Singer
The Chrysler Building
405 Lexington Avenue
New York NY 10174
United States of America

Share Registry

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

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

Stock Exchange Listing

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

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Chairman's Review



Peter James; Independent Non-Executive Chairman

Dear Fellow Shareholders,

The 2016 financial year was an exciting year for DroneShield Limited ("DroneShield" or "the Company"), with a number of key milestone achievements. The value created for the shareholders of the Company has been underscored by the substantial appreciation in the Company's share price since its listing on the Australian Securities Exchange ("ASX") on 22 June 2016 and set a solid foundation for the Company's development in 2017.

The Company's initial public offering ("IPO") on the ASX on 22 June 2016 was oversubscribed by a range of retail and institutional investors, raising $7,000,000 (the maximum level of subscriptions targeted by the Company in the IPO).

Following the IPO, the Company delivered on the market's expectations, as reflected in the fact that, through to the date of this report, the Company has generated a return of approximately 150%[1] in the 8 months following the IPO, placing it amongst top market performers over the period since the listing.

As foreshadowed in its IPO prospectus, following the listing, DroneShield made several key hires in Business Development and Product Development, and continued to actively pursue product development, sales and partnerships.

Following several months of business development work, late 2016 saw the Company announce its detection product sales to the office of Prime Minister of Turkey and a sale to a national security agency of a country in Asia.



Image: DroneShield sensor deployed at the 2016 Boston Marathon

Recognising the benefits of being a one-stop drone security solution for a range of government and civil infrastructure users, in late November 2016, DroneShield launched DroneGun, a tactical drone jammer, which added an effective drone countermeasure to DroneShield's existing suite of drone detection products. This new product positioned DroneShield as the only company in the world offering both drone detection and handheld rifle-style tactical drone countermeasures.

While the Company's detection product had already placed DroneShield at the forefront of the industry, the launch of DroneGun catapulted the Company to the forefront of potential users' decision-making. The first sale of DroneGun was made within days of its launch. The Company was covered in hundreds of press articles and received a very large number of queries about its products following the launch of DroneGun.

The Company's high profile recent engagements include deployment by the Swiss police at the Annual World Economic Forum Meeting in Davos in January 2017, deployment by the Defence Ministry of a Middle Eastern country closely aligned with the Western governments, and continued deployment by the Boston Police Department for the third consecutive year at the Boston Marathon in April 2017.

DroneShield's developments come against the continuous backdrop of terrorist organisations stepping up their deployment of consumer and commercial drones, creating an urgent need for drone security products. The military market is expected to be an important market segment going forward, and the Company's strength in this market is underscored by the fact that the Company is drawing on the assistance of its high profile Board and Advisory Board members, with substantial experience and relationships in the military sector, particularly in the United States, the United Kingdom and Australia.



Image: Actual ISIS footage - ISIS grenade deployed by a drone destroys an M1 Abrams Tank[2]

[1] This reflects the increase in value of the share price at date of listing (20c to purchase a package of one share and one listed option) to the price at 21 February 2017 of 47c per share and 22c per option.
[2] https://www.funker530.com/abrams-tank-commander



Image: DroneSentry anti-swarming product currently under development

The Company is actively continuing its product development. DroneShield's product development activities respond to the extensive interaction that the Company has with potential customers (and especially government customers). The ability of the Company's Board and Advisory Board members to judge the direction of the market based on their experience and relationships enables the Company to continue its product development to meet the anticipated demand. The recent commencement of the development of DroneSentry, an anti-drone swarming product, illustrates how the Company responds to the demands of the market and its potential customers.

The Company's in-house and distributor salesforce is in advanced discussions with a number of potential customers (including high profile potential users with substantial unit requirements) globally in relation to both its detection and countermeasure products, leveraging off its channel partner presence in over 35 countries. While the upcoming demonstrations at a U.S. military training facility (secured through the Company's partnership with a U.S. government agency) and to high profile customers elsewhere, are only a small part of the Company's co-ordinated sales efforts, they illustrate the calibre and scale of DroneShield's potential customers.

On behalf of the Board I would like to thank our Executive team for their significant contributions this 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

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About DroneShield

Based in Sydney, Australia and Virginia, United States of America ("United States" or "U.S."), DroneShield is a worldwide leader in drone security technology. The company has developed a drone security solution that protects people, organisations and critical infrastructure from the intrusion of drones. Its leadership team includes professionals with world-class expertise in engineering and physics, combined with substantial experience in government, defence, intelligence and aerospace.

History of DroneShield

Founded on 10 January 2014, the DroneShield business began as DroneShield LLC in the United States. 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[3].

DroneShield Limited listed on the ASX on 22 June 2016, raising $7,000,000 through the issue of 35 million shares at $0.20 per share in an oversubscribed offer.

DroneShield owns the intellectual property rights to products consisting of proprietary software and hardware that detect drones up to 1km away and instantly alert users in real-time though multiple channels. DroneShield utilises audio/acoustic signatures (obtained at the U.S. Department of Defence approved anechoic chamber) to detect drones, providing a superior level of accuracy when compared with traditional radar, radio frequency, camera, LIDAR and laser methods that frequently fail due to an inability to distinguish drones from other airborne devices and birds.

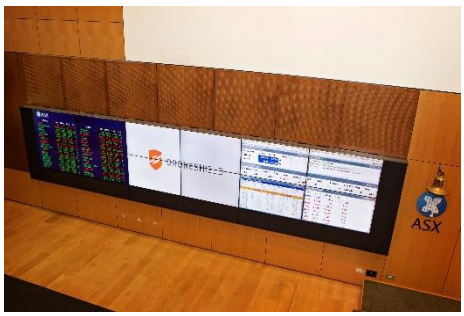

Image: DroneShield on the ASX screens in Sydney on the day of the IPO, 22 June 2016. The share price closed at 30c, 50% above its issue price of 20c, on the first day of trading



Image: DroneShield FarAlert product



Image: DroneShield DroneGun product

The launch of DroneGun, a tactical drone jammer, in November 2016, has established DroneShield as a comprehensive drone security platform offering both detection and countermeasure products. DroneGun is a rifle-style handheld tactical device which jams the pilot's communication with the drone. DroneGun is highly effective at the standard frequencies of consumer and commercial drones, with optional GPS-jamming capability available where lawful.[4] The video accompanying DroneGun's launch received over 1 million views within the first month of its release, with enquiries and press attention received from around the world, illustrating the strong global interest in drone countermeasures.

---

[3] DroneShield LLC is a wholly owned subsidiary of DroneShield Limited, however from an accounting perspective, DroneShield LLC is considered to be the acquirer and DroneShield Limited the acquiree. This means that the consolidated financial statements of DroneShield will reflect the opening comparatives of DroneShield LLC, as a continuing business.

[4] DroneGun has not been authorised as required by the United States Federal Communications Commission ("FCC"). This device is not, and may not be, offered for sale or lease, or sold or leased, in the United States, other than to the United States government and its agencies, until such authorisation is obtained. The use of DroneGun in the United States by other persons or entities, including state or local government agencies, is prohibited by United States federal law. Laws limiting the availability of DroneGun to certain types of users may apply in other jurisdictions, and any sales will be conducted only in compliance with the applicable laws.

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Business Model

Affordable consumer-grade drones 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's distribution channels focus on third party security providers and hardware distributors. With offices in Australia and the United States, DroneShield has an experienced salesforce with 50 distribution partners across 35 countries. The ultimate end-users and potential end-users come from a diverse array of global sectors, including the following:

- Utilities such as power plants, electricity grids and gas pipelines.
- Ports and other critical infrastructure asset owners.
- Defence agencies.
- Intelligence and national security agencies.
- Airports and other civil defence users.
- 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 the threat from drones with a suite of detection methods and countermeasure technologies. DroneShield's products are readily available and it offers one of the few commercially available and affordable solutions to the worldwide threat caused by consumer grade drones.

With revenue models including software as a service ("SaaS"), DroneShield's business model for detection software is aimed at generating a recurring licence revenue stream for the life of the installation, prepaid annually in advance by the users.

Environment

The overall global demand for drone detection and mitigation products continued to increase through 2016 and into 2017, against the backdrop of nearly daily barrage of news about drone threats.

Dozens of high profile incidents and concerns took place during the year and subsequent to its end. One can read about some of these at https://www.droneshield.com/press-coverage and https://twitter.com/DroneShield

Examples of recent relevant incidents and concerns, public statements by officials, and media coverage about relevant issues included the following:

- ISIS released a video of its remote-controlled drone dropping a bomb.
- An ISIS drone strapped with a bomb (a "flying IED") exploded in Iraq, killing two Kurdish soldiers and leaving two French soldiers wounded.
- Footage of ISIS suicide bombings shot by drones from the sky (as these attacks occurred) was widely circulated on the Internet.
- It was reported that an Australian citizen was arrested in Turkey on charges of being the head of an ISIS plot to use explosive-laden drones to carry out remote attacks.



Image: Basic plastic tubes positioned underneath quadcopters appear right size for 40mm grenades[5]

[5] Image Credit: Mitch Utterback

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- London airports alone were reported to have had 36 drone incidents, with ten Category A incidents (near misses) in 2016.
- The U.S. Army was reported as having identified a critical gap in its ability to face swarms of drones. General Daniel B. Allen, the U.S. Army's Chief of Staff, was reported as having stated that defeating drone swarm attacks will be essential in the future.
- Consistent with the overall direction of the Western military efforts, the Iranian military announced its own drone jamming weapon.

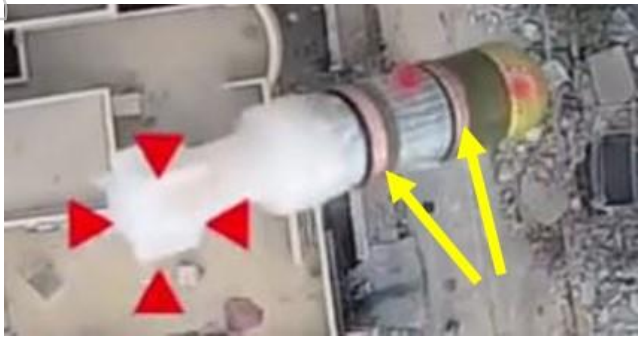

Image: ISIS grenade deployed by a drone. The two fawn coloured bands highlighted by yellow arrows appear to be copper driving bands. Usually each round only has a single driving band, so the existence of two, with what appears to be tape between them, potentially indicates two rounds taped together[6]



Image: ISIS grenade deployed by a drone. Appears to show a 40mm round which shows some kind of extension strapped to its base[6]

Market Position

While several companies have announced anti-drone product launches in the recent months, DroneShield continues to maintain a substantial lead in the drone security market for the following reasons.

- Most of the purported anti-drone products remain "vapourware" – products that have not progressed beyond an idea or a prototype. DroneShield is shipping products.
- Recently announced product launches are just that – product launches. DroneShield launched its currently available products previously and has had a substantial marketing and distribution network lead in the industry.
- DroneShield is one of the very few providers of both detection and countermeasures.
- Most purportedly competing products, prototypes and ideas provide detection or countermeasures but not both. The effectiveness of detection is limited without countermeasures, and countermeasures cannot be deployed in most circumstances without drones having first been detected.
- DroneShield's products consistently beat the limited competition in head to head trials in technical and operational terms (such as range, effectiveness, low profile, convenience, deployability, failure and false alarm rates, and others).
- DroneShield's customers and potential customers favour the effectiveness of DroneShield's products. Its products are not time of day or season-dependent, do not rely on line of sight or visibility, are passive to the surrounding environment, and cover most major commercial drone models (including frequency hoppers).
- Many defence-related products developed in the United States are subject to U.S. export restrictions. DroneShield's products are not.
- DroneShield's products are materially cheaper than most competing detection products that are being marketed (particularly, systems being marketed by larger defence contractors) and are in fact capable of being delivered.
- DroneShield's subscription pricing model further reduces a customer's capital outlay upfront and provides an additional incentive to adopt the product.
- As DroneShield is an Australian company with meaningful U.S. operations, its origin is a positive factor in the decision-making process by allied country users, especially government users.



Image: DroneShield WideAlert drone detection product, launched by the Company in February 2017

6 https://www.bellingcat.com/uncategorized/2017/02/10/death-drone-bombs-caliphate/

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, Nearmap Limited and Dreamscape Networks Limited.

Mr. James has recently completed 12 years as a Non-Executive Director for ASX-listed iiNet; Australia's second largest DSL Internet Services Provider, chairing iiNet's Strategy and Innovation Committee. iiNet has recently been acquired by TPG Telecom for AUD $1,560,000,000.

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 Member of the Australian Computer Society and holds a BA degree with Majors in Computer Science and Business.



Oleg Vornik; CEO and Managing Director

An experienced financier with investment banking and treasury experience at the Royal Bank of Canada, Leighton Contractors, Brookfield, Deutsche Bank and ABN AMRO.

Mr. Vornik was most recently an energy and industrials investment banker with the Sydney office of the Royal Bank of Canada. Prior to RBC, he worked as an investment banker at Brookfield Asset Management, Deutsche Bank and ABN AMRO in Australia and New Zealand and held the position of a Treasurer at Leighton Contractors. Mr. Vornik holds a BSc (Mathematics) and BCom (Hons) from 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.



Dr. Samantha Ravich; Independent Non-Executive Director

Dr. Samantha Ravich is the former Deputy National Security Advisor for Vice President Cheney and served in the White House for 5½ years where she was the Vice President's representative on Asian and Middle East Affairs as well as on Counter-Terrorism and Counter-Proliferation. Dr. Ravich was an early angel investor in DroneShield.

Dr. Ravich is now the CEO of A2P, a social data analytics firm, as well as the Principal Investigator on the recently released monograph, "Cyber-Enabled Economic Warfare: An Evolving Challenge." She also serves as an advisor to The Chertoff Group and Freedom Capital Investment Management. Dr. Ravich is a frequent key note speaker on international security, cyber and the future of intelligence.

Dr. Ravich received her Ph.D. in Policy Analysis from the RAND Graduate School and her MCP/BSE from the University of Pennsylvania/Wharton School. Dr. Ravich joined the Board of DroneShield on 1 April 2016. Dr. Ravich does not hold any other public company directorships.



Robert Clisdell; Non-Executive Director

Mr. Clisdell is based in Sydney and is the Vice-President at Bergen Capital (Australia) Ltd, an affiliate of the Company's largest shareholder. Prior to Bergen, Mr. Clisdell led the middle market corporate advisory practice for Credit Suisse's Private Bank in Melbourne. Prior to Credit Suisse, Mr. Clisdell was an M&A banker with Caliburn Partnership (now Greenhill & Co.) in Sydney, and worked in Equity Capital Markets at Ord Minnett Corporate Finance.

Mr. Clisdell began his career with Arthur Anderson and qualified as a Chartered Accountant in 2005. He holds a Bachelor of Commerce from the University of Sydney and a Graduate Diploma in Applied Finance from FINSIA. Mr. Clisdell joined the Board of DroneShield on 24 January 2017. Mr. Clisdell does not hold any other public company directorships.

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Claire Newey; Chief Financial Officer

An experienced Chartered Accountant, Ms. Newey has 12 years of international financial reporting, management and advisory experience, across public and private companies spanning various industries.

Ms. Newey is a Member of the Institute of Chartered Accountants of England and Wales and holds a BSc (Hons) from the University of Edinburgh and an MSc from LSHTM.

Ms. Newey was appointed Chief Financial Officer at DroneShield on 24 January 2017, following a role as the Group's Financial Controller.



Anand Sundaraj; Company Secretary

Mr. Sundaraj is a Principal and Solicitor Director of Whittens, McKeogh & Sundaraj Pty Ltd, with prior positions at law firms Allen & Overy, King & Wood Mallesons and Herbert Smith Freehills, as well as for global investment bank Credit Suisse. He is the Company Secretary of several ASX listed companies. Mr. Sundaraj was appointed Company Secretary of DroneShield on 24 January 2017.

Mr. Sundaraj holds a LLB (Hons) and BSc from Monash University and has been admitted as a Solicitor in New South Wales and Victoria.

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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 (3rd 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 Policy
- Remuneration Policy
- Trading Policy
- Diversity Policy
- Shareholder Communications Strategy
- 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 from the date the Company was admitted to the official list (i.e. 22 June 2016) to the period ended 31 December 2016.

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
Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1 A listed entity should disclose: 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	The Board is responsible for the corporate governance of the Company. 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: https://www.droneshield.com/investors 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. The Company intends to regularly review the balance of responsibilities between the Board and management to ensure that the division of functions remains appropriate to the needs of the Company.

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Recommendation 1.2 A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.	YES	(a) 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. During the 2016 Financial Year, as part of the IPO, the Company undertook the appropriate checks prior to the appointments of the Directors of the Company. (b) 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.
Recommendation 1.3 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.
Recommendation 1.4 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.
Recommendation 1.5 A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board: (i) to set measurable objectives for achieving gender diversity; and (ii) to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary or it; and (c) disclose as at the end of each reporting period: (i) the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them; and (ii) either: (A) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators",	YES YES NO	(a) The Company has adopted a Diversity Policy which identifies gender diversity as a key area of focus for the Company. However, given the current size of the Company, the Board has determined that the benefits of the initiatives recommended by the ASX Corporate Governance Council in this regard are disproportionate to the costs involved in the implementation of such strategies. Accordingly, the Board has elected to adopt a tiered approach to the implementation of its Diversity Policy which is relative to the size of the Company and its workforce, such that: - Where the Company employs 20 or more employees, the Board will adopt practices in line with the Recommendations. - While the Company's workforce remains below this threshold, the Board will continue to drive the Company's diversity strategies on an informal basis and will apply the initiatives contained in the Diversity Policy to the extent that the Board considers relevant and necessary. (b) A copy of the Company's Diversity Policy is contained in its Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors (c) (i) As the Company did not employ 20 or more employees during the 2016 Financial Year, the Company did not formally define a set of measurable gender diversity objectives; (ii) As at the end of the reporting period (i.e. 31 December 2016), the respective

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<table>
<tr><th>PRINCIPLES AND RECOMMENDATIONS</th><th>COMPLY (YES/NO)</th><th>EXPLANATION</th></tr>
<tr><td>as defined in the Workplace Gender Equality Act 2012.</td><td></td><td>proportions of men and women in the following roles were as follows:
<table><tr><td></td><td>Men</td><td>Women</td></tr><tr><td>Board</td><td>67%</td><td>33%</td></tr><tr><td>Senior executives</td><td>83%</td><td>17%</td></tr><tr><td>Across the whole organisation</td><td>82%</td><td>18%</td></tr></table></td></tr>
<tr><td>Recommendation 1.6
A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual Directors; and
(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</td><td>YES

YES</td><td>(a) The performance of the Board as a group and of individual Directors will be assessed each year for all future years. The Remuneration Committee (the function of which is currently performed by the full Board) is responsible for evaluating the performance of the Board and individual Directors on an annual basis. The process for this is set out in the Company's Performance Evaluation Procedures policy which is contained in its Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors.
(b) Given the short timeframe since the Company's incorporation and subsequent listing on the ASX, the Board did not undertake a formal performance evaluation of its Board or its individual Directors during the 2016 financial year but intends to do so in the 2017 financial year.</td></tr>
<tr><td>Recommendation 1.7
A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of its senior executives; and
(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</td><td>YES

YES</td><td>(a) The Remuneration Committee (the function of which is currently performed by the full Board) is responsible for evaluating the performance of senior executives on an annual basis. The process for this is set out in the Company's Performance Evaluation Procedures policy which is contained in its Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors.
(b) Given the short timeframe since the Company's incorporation and subsequent listing on the ASX, the Board did not undertake a formal performance evaluation of its senior executives during the 2016 financial year but intends to do so in the 2017 financial year.</td></tr>
<tr><td colspan="3">Principle 2: Structure the board to add value</td></tr>
<tr><td>Recommendation 2.1
The board of a listed entity should:
have a nomination committee which:
(i) has at least three members, a majority of whom are independent Directors; and
(ii) is chaired by an independent Director,
and disclose:
(iii) the charter of the committee;
(iv) the members of the committee; and
(v) as at the end of each reporting period, the number of times the</td><td>NO
NO

NO

NO
N/A

N/A</td><td>Due to its size, the Board has determined that the function of the Nomination Committee is most efficiently carried out with full Board participation and accordingly, the Board has elected not to establish a separate Nomination Committee at this stage.
As a result, the duties that would ordinarily be assigned to the Nomination Committee under the Nomination Committee Charter are carried out by the full Board.

A copy of the Nomination Committee Charter is contained in the Company's Corporate Governance</td></tr>
</table>

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
committee met throughout the period and the individual attendances of the members at those meetings; or if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.	YES	Plan which is available on the Company's website https://www.droneshield.com/investors. The Board devotes time at Board meetings on at least an annual basis to discuss Board succession issues. Where appropriate, all members of the Board are involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules. The Board also intends to conduct an annual review of the Company's Board Skills Matrix (in accordance with Recommendation 2.2) to ensure the Board maintains an appropriate balance of skills, experience, independence and knowledge to discharge its duties and responsibilities effectively.
Recommendation 2.2 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	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. 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. 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: https://www.droneshield.com/investors.
Recommendation 2.3 A listed entity should disclose: (a) the names of the Directors considered by the board to be independent Directors; (b) if a Director has an interest, position, association or relationship of the type described in Box 2.1 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each Director	YES	(a) During the 2016 financial year, the Independent Directors of the Company were: - Mr. Peter James (Non-Executive Chairman); - Mr. Winton Willesee (Non-Executive Director); - Dr. Samantha Ravich (Non-Executive Director). Mr. James Walker, the Managing Director, was not considered to be independent during his tenure due to his executive role as Managing Director of the Company. Mr. Walker resigned as the Managing Director of the Company on 2 December 2016. It should also be noted that Mr. Peter James assumed the role of Interim Executive Chairman from 2 December 2016 – 24 January 2017, following the resignation of Mr. James Walker. During this time period, he was not considered to be an Independent Director of the Company. (b) 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. (c) The Directors who held office during and after the 2016 financial year have served continuously since their respective dates of appointment unless otherwise noted below: - Mr. Peter James: appointed 1 April 2016;

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
		- Mr. James Walker: appointed 29 March 2016, resigned 2 December 2016; - Mr. Winton Willesee: appointed 4 November 2015, resigned 24 January 2017; and - Dr. Samantha Ravich: appointed 1 April 2016.
Recommendation 2.4 A majority of the board of a listed entity should be Independent Directors.	YES	The Board Charter requires that where practical the majority of the Board will be independent. During the 2016 financial year, the following three of the Company's three Directors were considered to be Independent Directors: - Mr. Peter James (Non-Executive Chairman); - Mr. Winton Willesee (Non-Executive Director); and - Dr. Samantha Ravich (Non-Executive Director). As noted above, Mr. Peter James assumed the role of Interim Executive Chairman from 2 December 2016 – 24 January 2017, following the resignation of Mr. James Walker. During this time period, he was not considered to be an Independent Director of the Company.
Recommendation 2.5 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	The Chairman, Mr. Peter James is an Independent Non-Executive Director and is not the same person as the Managing Director of the Company. As noted above, Mr. Peter James assumed the role of Interim Executive Chairman from 2 December 2016 – 24 January 2017, following the resignation of Mr. James Walker. During this time period, he was not considered to be an Independent Director of the Company.
Recommendation 2.6 A listed entity should have a program for inducting new Directors and providing appropriate professional development opportunities for continuing Directors to develop and maintain the skills and knowledge needed to perform their role as a Director effectively.	YES	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. 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.
Principle 3: Act ethically and responsibly		
Recommendation 3.1 A listed entity should: (a) have a code of conduct for its Directors, senior executives and employees; and disclose that code or a summary of it.	YES	(a) The Company has adopted a Corporate Code of Conduct and a Public Sector Code of Conduct, both of which apply to Directors, employees and contractors of the Company. The Corporate Code of Conduct and a Public Sector Code of Conduct are both contained in the Company's Corporate Governance Plan which is available on the Company's website at: https://www.droneshield.com/investors.

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 4: Safeguard integrity in corporate reporting		
Recommendation 4.1 The board of a listed entity should: have an audit committee which: (i) has at least three members, all of whom are Non-Executive Directors and a majority of whom are Independent Directors; and (ii) is chaired by an Independent Director, who is not the chair of the board, and disclose: (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	NO NO NO YES N/A N/A YES	Due to the current size of the Company, the Board has determined that the function of the Audit and Risk Committee is most efficiently carried out with full Board participation and accordingly, the Company has elected not to establish a separate Audit and Risk Committee at this stage. As a result, the duties that would ordinarily be assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter are carried out by the full board. The Audit and Risk Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors. The Board devotes time on at least an annual basis to consider the robustness of the various internal control systems it has in place to safeguard the integrity of the Company's financial reporting. In addition, following the completion of each half year review and annual audit review, the Company's external auditors confer with the Board on any matters identified during the course of the audit that have the potential to increase the Company's exposure to risks of material misstatements in its financial reports. The full Board also assumes responsibility for recommendations to security holders on the appointment and removal of the external auditor. Audit partner rotations will be enforced in accordance with the relevant guidelines.
Recommendation 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	YES	Prior to the execution of the financial statements of the Company, the Company's Managing Director and Chief Financial Officer provide the Board with written assurances that the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material aspects.
Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	YES	An external auditor will be present at the Company's Annual General Meeting ("AGM") and be available to answer questions from security holders relevant to the audit.

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1 A listed entity should: - have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and - disclose that policy or a summary of it.	YES	- 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. - The Company's Continuous Disclosure Policy is contained within the Company's Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors.
Principle 6: *Respect the rights of security holders*		
Recommendation 6.1 A listed entity should provide information about itself and its governance to investors via its website.	YES	Shareholders can access information about the Company and its governance (including its constitution and adopted corporate governance policies) from the Company's website https://www.droneshield.com/investors. The Company will regularly update the website and contents therein as deemed necessary.
Recommendation 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. 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. The Company's Shareholder Communications Strategy is contained in the Company's Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors.
Recommendation 6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	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 https://www.droneshield.com/investors. 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. 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. 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

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
		in respect of the Company's business and operations generally. 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.
Recommendation 6.4 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	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. Security holders can also register with the Company at info@droneshield.com to receive email notifications following the release of a material announcement to ASX.
Principle 7: Recognise and manage risk		
Recommendation 7.1 The board of a listed entity should: have a committee or committees to oversee risk, each of which: (i) has at least three members, a majority of whom are Independent Directors; and (ii) is chaired by an Independent Director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (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 if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.	NO NO NO YES N/A N/A YES	Due to its size, the Board has determined that the function of the Audit and Risk Committee is most efficiently carried out with full Board participation and accordingly, the Company has elected not to establish a separate Audit and Risk Committee at this stage. As a result, the duties that would ordinarily be assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter are carried out by the full Board. The Audit and Risk Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors. The Board devotes time on at least an annual basis to fulfil the roles and responsibilities associated with overseeing risk and maintaining the Company's risk management framework and associated internal compliance and control procedures.
Recommendation 7.2 The board or a committee of the board should: review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and disclose in relation to each reporting period, whether such a review has taken place.	YES	During the 2016 financial year, the Board, in carrying out the duties typically assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter, undertook a formal review the Company's risk management framework in line with its Risk Management Policy.
Recommendation 7.3 A listed entity should disclose: if it has an internal audit function, how the function is structured and what role it performs; or if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	NO YES	Due to the current size of the Company and the manageable scale of its operations, the Board, in carrying out the duties typically assigned to the Audit & Risk Committee under the Audit & Risk Committee Charter, have determined that the Company's existing risk management processes and internal controls are sufficiently robust and as such, no internal audit committee is required at this stage.

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Recommendation 7.4 A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	YES	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). During the 2016 financial year, the Company undertook a formal review of the Company's risk management framework, which included an assessment of the Company's exposure to economic, environmental and social sustainability risks. The Board was satisfied with the effectiveness of the Company's risk management framework and associated internal compliance and control procedures that are in place to eliminate, mitigate or otherwise manage the Company's exposure to such risks. All material risks are announced to the market, in accordance with the requirements of the ASX listing rules and otherwise.
Principle 8: Remunerate fairly and responsibly		
Recommendation 8.1 The board of a listed entity should: have a remuneration committee which: (i) has at least three members, a majority of whom are Independent Directors; and (ii) is chaired by an Independent Director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (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 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.	NO NO NO YES N/A N/A YES	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. 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. The Remuneration Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors. 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.
Recommendation 8.2 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 and ensure that the different roles and responsibilities of Non-Executive Directors compared to Executive Directors and other Senior Executives are reflected in the level and composition of their remuneration.	YES	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 https://www.droneshield.com/investors. Further information regarding the remuneration practices of the Company is contained in the Remuneration Report section of the Company's 2016 Annual Report.
Recommendation 8.3 A listed entity which has an equity-based remuneration scheme should: have a policy on whether participants are permitted to enter into transactions (whether	YES	The Company's Remuneration Committee (the function of which is currently performed by the full Board) is responsible for the review and approval of any equity-based remuneration schemes offered to Directors and Employees of the Company. Further, in accordance with the Remuneration Committee

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PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and disclose that policy or a summary of it.		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. During the 2016 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 in to transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. The Company's policy in this regard is set out 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 https://www.droneshield.com/investors. 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. A copy of the Securities Trading Policy is contained in the Company's Corporate Governance Plan which is available on the Company's website https://www.droneshield.com/investors.

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Directors' Report

Your directors present their report for DroneShield Limited (the "Company") and its controlled entities ("the Group") for the year ended 31 December 2016.

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 8 of the Annual Report.

Name	Position	Effective date
Directors		
Peter James	Independent Non-Executive Chairman	Appointed Independent Non-Executive Chairman 1 April 2016 Appointed Executive Chairman 2 December 2016 Returned to Independent Non-Executive Chairman 24 January 2017
Winton Willesee[7]	Independent Non-Executive Director	Appointed Non-Executive Chairman 4 November 2015 Appointed Non-Executive Director 1 April 2016 Resigned as Director 24 January 2017
Dr. Samantha Ravich	Independent Non-Executive Director	Appointed 1 April 2016
Robert Clisdell	Non-Executive Director	Appointed 24 January 2017
James D Walker[8]	CEO and Managing Director	Appointed 29 March 2016, resigned 2 December 2016
Simon Crowther[9]	CEO and Managing Director	Appointed 16 November 2015, resigned 9 February 2016
Oleg Vornik	Executive Director and CFO CEO and Managing Director	Appointed Executive Director 4 November 2015 Resigned as Executive Director 1 April 2016 Appointed as CEO and Managing Director 24 January 2017
Erlyn Dale[10]	Non-Executive Director and Company Secretary	Appointed Non-Executive Director 4 November 2015 Appointed Company Secretary 4 November 2015 Resigned as Non-Executive Director 1 April 2016 Resigned as Company Secretary 24 January 2017

[7] Mr. Willesee is an experienced company Director with a broad range of skills and experience in strategy, corporate governance, company public listings and corporate finance. He is a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors and a Member of CPA Australia. Over the past three years Mr. Willesee has held Directorships with the following public companies: Birimian Limited, Metallum Limited, Ding Sheng Xin Finance Co Limited, xTV Networks Limited, MMJ PhytoTech Limited, Cove Resources Limited, Basper Limited, Coretrack Limited, Otis Energy Limited, Newera Resources Limited, Torrens Energy Limited, Base Resources Limited and Bioprospect Limited.

[8] Mr. Walker is an experienced leader in commercialising technology in new markets with a strong focus on corporate governance, team development, driving institutional support and shareholder returns. Mr. Walker is a Fellow of the Chartered Accountants Australia and New Zealand and has a BCom degree from the University of New South Wales. Mr. Walker's other recent public company Directorships includes Seeing Machines Limited.

[9] Mr. Crowther was previously CEO of Nearmap Limited and has a broad international digital and media background. Mr. Crowther holds a Bachelor degree in Business from the University of Leeds and a Masters Degree in Business from the University of Melbourne. Mr. Crowther's recent Directorships of public companies includes Nearmap Limited.

[10] Miss Dale has a broad range of experience in company administration and corporate governance having held positions as Non-Executive Director and/or Company Secretary for a number of ASX listed public companies. Miss Dale holds a BCom and Graduate Diploma of Applied Corporate Governance and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia. Other recent Directorships of public companies include xTV Networks Limited and Cove Resources Limited.

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Directors' Report *continued*

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Meetings of Directors

Name	Meetings eligible to attend	Meetings attended
Directors		
Peter James	10	10
Winton Willesee	13	13
Dr. Samantha Ravich	10	9
Robert Clisdell	0	0
James D Walker	9	7
Simon Crowther	3	0
Oleg Vornik	3	3
Erlyn Dale	3	3

Review of Operations and Financial Results

The net loss after tax for the year was $4,939,819 (2015: loss of $482,502). The Company listed on the ASX on 22 June 2016, raising $7,000,000 which has funded increased investment in sales and marketing, R&D, ongoing intellectual property, legal, insurance and administration costs and working capital.

In late November 2016, DroneShield launched DroneGun, a tactical drone jammer, which added an effective drone countermeasure to DroneShield's suite of drone detection products. This new product has positioned DroneShield as the only company in the world offering both drone detection and handheld rifle-style tactical drone countermeasures.

In December 2016, DroneShield took the decision to refocus its marketing, sales and business development efforts on the rapidly growing government, commercial and civil infrastructure drone security markets outside of Australia, with particular attention towards the United States. This refocus saw Sydney-based CEO and Managing Director James Walker resign.

In January 2017, the Board appointed Oleg Vornik, who had been the Chief Financial Officer of the Company for over a year, as the CEO and Managing Director of DroneShield. Additionally, Robert Clisdell and Anand Sundaraj joined DroneShield as Non-Independent Non-Executive Director and Company Secretary respectively, following the resignations of Winton Willesee (Non-Executive Director) and Erlyn Dale (Company Secretary) on 24 January 2017.

Key achievements for 2016 and subsequent to the year-end have included:

- Listing on the ASX on 22 June 2016 with a significant oversubscription Launch of DroneGun on 28 November 2016 (with first sale in December 2016), establishing DroneShield as a comprehensive solution for drone security.
- High profile customer deployments including office of the Prime Minister of Turkey, a national security agency of a country in Asia, deployment by the Swiss Police for the World Economic Forum in Davos, a Middle Eastern Defence Ministry closely aligned with the Western governments, and a NATO military agency.
- Partnership with a U.S. Government Agency headquartered in a U.S. Mid-Atlantic State. Under the partnership, the U.S. government organisation made a military training area available for demonstrations of DroneShield's products to U.S. government agencies at no cost, and is facilitating such demonstrations, while DroneShield made DroneGun available to the U.S. government organisation for use at that military training area at no cost.
- A number of demonstrations performed and scheduled to be performed in near term, to potential customers at a number of venues.
- Consistent with the requirements of potential end-users, DroneShield continued its product development activities, commencing the development of DroneSentry, an anti-swarming product shortly after year end.
- Launch of the on-site processor product, allowing drone detection products to work in a self-contained facility without a requirement for internet/cloud connection. This benefits users who are unable, due to their remote locations or internal policies, to connect to a cloud. The product is expected to be particularly relevant in prison, military and mobile use environments.
- Protecting Boston Marathon for second year in a row in April 2016, and having subsequently been selected to continue in April 2017 for the third consecutive year.
- Expansion across executive, sales, operations, research and development and support teams with key staff appointments in each of these areas.
- A high number of sales, technology partnership discussions and demonstrations at advanced planning stages, with announcements to be made to the market at an appropriate stage.

Directors' Report *continued*

The overall government and civil infrastructure demand for drone detection and mitigation products continued to increase, against the backdrop of nearly daily barrage of news about drone threats. In particular, ISIS has released a number of videos depicting weaponised consumer drones attacking military and civilian targets.

DroneShield continues its engagement with key decision-makers and regulators, utilizing, among other things, its high-profile Advisory Board. The calibre of DroneShield's Advisory Board was underscored by the fact that its Advisory Board member Rear Admiral Jay Cohen U.S. Navy (Ret), the former Chief of Naval Research (Chief Technology Officer) of the United States Department of the Navy, and later United States Department of Homeland Security (DHS) Undersecretary for Science and Technology, was reported by the press as having met (in his personal capacity, unrelated to the Company) with the then President-Elect Donald Trump and his transition team at Trump Tower in New York City on 2 December 2016.

The Company has continued to attract a very substantial positive publicity. In particular, among hundreds of press reports on DroneShield, was a report on NBC News' Today show, made the day before President Trump's inauguration; the report described the danger that drones could pose to crowds and dignitaries at the inauguration. The report profiled DroneShield and referenced the fact that the United States Secret Service had deployed secret drone countermeasures at the inauguration.

Principal Activities

The principal activity of the Company is the development and commercialisation 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 2016.

Significant Events after the Balance Date

On 24 January 2017, Oleg Vornik, who had been the Chief Financial Officer of the Group for over a year, was appointed CEO and Managing Director. Additionally, Winton Willesee resigned as an Independent Non-Executive Director, and Robert Clisdell was appointed as a Non-Executive Director.

As at 27 February 2017, 3,006,766 listed share options had been exercised in 2017, resulting in proceeds to the Group of $661,489 and the issue of 3,006,766 new shares of the Company, bringing the total number of shares in issue at 27 February 2017 to 138,006,767.

No other matter or circumstance has arisen since 31 December 2016 which has significantly affected or may significantly affect:

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

Likely developments and expected results of operations

Refer to the Chairman's Review to shareholders, on pages 3 to 4, 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 (2015: $nil)

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Directors' Report *continued*

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 in the Group.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group 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 23 to 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, active 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 29.

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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. Pursuant to clause 5.1 of the Company's Board Charter 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 Board of Directors is responsible for overseeing performance evaluations of senior executives on an annual basis. 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.

In accordance with the Constitution, 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 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 and other terms of employment are reviewed annually by the Board having regard to performance, relevant comparative information and, where necessary, expert advice.

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.

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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 Non-Executive Chairman 1 April 2016 Appointed Executive Chairman 2 December 2016 Returned to Non-Executive Chairman 24 January 2017
Winton Willesee	Independent Non-Executive Director	Appointed as Non-Executive Chairman on 4 November 2015 Appointed Non-Executive Director on 1 April 2016 Resigned as Director 24 January 2017
Dr. Samantha Ravich	Independent Non-Executive Director	Appointed 1 April 2016
Robert Clisdell	Non-Executive Director	Appointed 24 January 2017
Erlyn Dale	Non-Executive Director and Company Secretary	Appointed as Non-Executive Director 4 November 2015 Appointed Company Secretary 4 November 2015 Resigned as Non-Executive Director 1 April 2016 Resigned as Company Secretary 24 January 2017
Executive Directors		
James D Walker	Managing Director and CEO	Appointed 29 March 2016, resigned 2 December 2016
Simon Crowther	Managing Director and CEO	Appointed 16 November 2015, resigned 9 February 2016
Oleg Vornik	Executive Director and CFO Managing Director and CEO	Appointed as Executive Director 4 November 2015 Resigned as Executive Director 1 April 2016 Appointed as Managing Director and CEO 24 January 2017

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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, including their personally related entities, are set out in the following table:

	Opening balance	Received during the year on exercise of options	Received on listing of DroneShield	Other changes during the year	Balance at 31 December 2016
Non-Executive Directors					
Peter James	-	-	-	250,000	250,000
Winton Willesee	-	-	-	10,000	10,000
Dr. Samantha Ravich	-	-	1,350,000	-	1,350,000
Erlyn Dale	-	-	-	-	-
Executive Directors					
James D Walker	-	-	-	270,170	-[11]
Simon Crowther	-	-	-	-	-
Oleg Vornik	-	-	-	50,000	50,000
Total	**-**	**-**	**1,350,000**	**580,170**	**1,930,170**

Performance shares held by KMP

45,000,000 Performance Shares in DroneShield Limited were issued on 22 June 2016 to the members of DroneShield LLC as part of an exchange agreement, conditional upon DroneShield Limited obtaining listing approval. Further details are provided in note 25. Holdings by KMP are listed below.

	Plan	Opening balance	Granted as compensation	Received on listing of DroneShield	Performance shares converted	Performance shares lapsed	Balance at 31 December 2016
Non-Executive Directors							
Peter James		-	-	-	-	-	-
Winton Willesee		-	-	-	-	-	-
Dr Samantha Ravich	A	-	-	202,500	-	-	202,500
	B	-	-	202,500	-	-	202,500
	C	-	-	202,500	-	-	202,500
Erlyn Dale		-	-	-	-	-	-
Executive Directors							
James D Walker		-	-	-	-	-	-
Simon Crowther		-	-	-	-	-	-
Oleg Vornik		-	-	-	-	-	-
Total	**-**	**-**	**-**	**607,500**	**-**	**-**	**607,500**

[11] James Walker ceased to be a KMP on 2 December 2016.

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Directors' Report- Remuneration Report *continued*

Share options held by KMP

	Opening balance	Granted as compensation	Other option acquisitions	Options lapsed	Balance at 31 December 2016
Non-Executive Directors					
Peter James	-	4,500,000	250,000	-	4,750,000
Winton Willesee	-	1,000,000	10,000	-	1,010,000
Dr. Samantha Ravich	-	1,000,000	-	-	1,000,000
Erlyn Dale	-	-	-	-	--
Executive Directors					
James D Walker	-	10,000,000	250,000	(6,500,000)	-[12]
Simon Crowther	-	-	-	-	-
Oleg Vornik	-	3,200,000	50,000	-	3,250,000
Total	**-**	**19,700,000**	**560,000**	**(6,500,000)**	**13,760,000**

Remuneration details of KMP

31 December 2016	Salary and fees $	Cash bonus $	Post-employment benefits $	Termination payment $	Share based payments (options) $	Total $
Non-Executive Directors						
Peter James	45,000	-	-	-	334,085	379,085
Winton Willesee	50,500	-	-	-	94,225	144,725
Dr Samantha Ravich	22,500	-	-	-	94,225	116,725
Erlyn Dale	20,680	-	-	-	-	20,680
Executive Directors						
James D Walker	192,889	-	16,848	138,389	342,352	690,478
Simon Crowther	70,736	-	5,815	-	-	76,551
Oleg Vornik	279,223	100,000	24,408	-	166,915	570,546
Total	**681,528**	**100,000**	**47,071**	**138,389**	**1,031,802**	**1,998,790**

31 December 2015	Salary and fees $	Cash bonus $	Post-employment benefits $	Termination payment $	Share based payments (options) $	Total $
Non-Executive Directors						
Winton Willesee	6,300	-	-	-	-	6,300
Erlyn Dale	2,520	-	-	-	-	2,520
Executive Directors						
Simon Crowther	4,118	-	432	-	-	4,550
Oleg Vornik	5,229	-	549	-	-	5,778
Total	**18,167**	**-**	**981**	**-**	**-**	**19,148**

[12] James Walker ceased to be a KMP on 2 December 2016.

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Directors' Report- Remuneration Report *continued*

Remuneration details of KMP continued

Employment agreements of Executive Directors during the year included the following key terms:

Name	Positions held during the year	Key terms of employment agreement
Oleg Vornik	Executive Director; Chief Financial Officer	- Base remuneration of $250,000 p.a. plus superannuation - Eligible to participate in short term incentive program - Eligible to participate in long term incentive program - A notice period of 3 months, except in defined circumstances - No fixed term
James Walker	Managing Director and CEO	- Base remuneration of $280,000 p.a. plus superannuation - Eligible to participate in short term incentive program - Eligible to participate in long term incentive program - A notice period of 3 months, except in defined circumstances
Simon Crowther	Managing Director and CEO	- Base remuneration of $280,000 p.a. plus superannuation - Eligible to participate in short term incentive program - Eligible to participate in long term incentive program - A notice period of 6 months, except in defined circumstances

Advisory Board remuneration

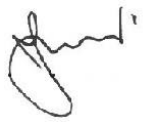
The Advisory Board comprises five individuals who were remunerated as follows during the year ended 31 December 2016:

31 December 2016 $	Salary and Fees	Share based payments (options)	Total
Carol Haave	6,531	32,979	39,510
Hon. Jay M Cohen	6,531	32,979	39,510
Lieutenant General Robin Brims CB CBE DSO	6,485	32,979	39,464
Robert Hill	6,522	32,979	39,501
Joanna Riley	6,522	32,979	39,501
Total	**32,591**	**164,895**	**197,486**

Their salary and fees reflects the current year portion of US$10,000 annual fees. Additionally, each Advisory Board member was issued with 350,000 share options, resulting in a total accounting expense of $164,895.

End of Remuneration Report.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
27 February 2017

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HLB Mann Judd Assurance
Quality Audit Services

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of DroneShield Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

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

Sydney, NSW
27 February 2017

A G Smith
Director

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd is a member of HLB International. A world-wide organisation of accounting firms and business advisers.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	31 December 2016 $	31 December 2015 $
Revenue	4	**84,398**	**132,185**
Other revenue and income	5	47,998	21,338
Cost of sales		(67,051)	(95,157)
Product development expense		(643,827)	(104,770)
Sales and customer service expense		(412,391)	(21,034)
Corporate and support expense	6	(2,278,436)	(363,943)
Corporate governance expense	7	(447,531)	(49,505)
Share based payment expense	3	(1,216,936)	-
Depreciation and amortisation	12	(6,043)	(1,616)
Loss before income tax		**(4,939,819)**	**(482,502)**
Income tax expense		-	-
Loss after income tax		**(4,939,819)**	**(482,502)**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Adjustments on translation of foreign controlled entity		53,265	(11,785)
Total comprehensive loss for the period		**(4,886,554)**	**(494,287)**
Basic loss per share	21	(0.07)	(482,502)
Diluted loss per share	21	(0.07)	(482,502)

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

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Consolidated Statement of Financial Position

	Note	31 December 2016 $	31 December 2015 $
ASSETS			
Current assets			
Cash and cash equivalents	**9**	3,497,077	378,448
Trade and other receivables	**10**	266,627	6,285
Inventories	**11**	238,273	16,739
Total current assets		**4,001,977**	**401,472**
Non-current assets			
Plant, equipment and intangible assets	**12**	59,155	13,642
Total non-current assets		**59,155**	**13,642**
Total assets		**4,061,132**	**415,114**
LIABILITIES			
Current liabilities			
Trade payables		34,757	87,004
Borrowings	**13**	-	840,511
Provisions	**14**	48,079	971
Other liabilities	**15**	588,545	19,682
Total current liabilities		**671,381**	**948,168**
Total liabilities		**671,381**	**948,168**
Net assets (deficiency)		**3,389,751**	**(533,054)**
EQUITY			
Share capital	**16**	3,400,993	28,320
Reserves		5,478,164	(11,785)
Accumulated losses		(5,489,406)	(549,589)
Total equity (deficiency)		**3,389,751**	**(533,054)**

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

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Consolidated Statement of Changes in Equity

	Contributed equity $	Options reserve $	Foreign currency translation reserve $	Accumulated losses $	Total equity $
Balance at 1 January 2015	**(12,664)**	**-**	**-**	**(67,087)**	**(79,751)**
Shares issued during the year	40,984				40,984
Total comprehensive income (loss) for the period	-	-	(11,785)	(482,502)	(494,287)
Balance at 31 December 2015	**28,320**	**-**	**(11,785)**	**(549,589)**	**(533,054)**
Balance at 1 January 2016	**28,320**	**-**	**(11,785)**	**(549,589)**	**(533,054)**
Conversion of convertible notes and warrants into contributed equity	1,203,174	-	-	-	1,203,174
Options issued	-	5,436,686	-	-	5,436,686
Contributions of equity, net of transaction costs	2,169,499	-	-	-	2,169,499
Total comprehensive income (loss) for the period	-	-	53,265	(4,939,819)	(4,886,554)
Balance at 31 December 2016	**3,400,993**	**5,436,686**	**41,480**	**(5,489,408)**	**3,389,751**

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

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Consolidated Statement of Cash Flows

	Note	31 December 2016 $	31 December 2015 $
Cash flows from operating activities			
Receipts from customers		191,917	147,432
Payments to suppliers and employees		(3,757,170)	(662,429)
Net cash flows from (used in) operating activities	**26**	**(3,565,253)**	**(514,997)**
Cash flows from investing activities			
Purchase of plant and equipment		(51,577)	(14,837)
Net cash flows from (used in) investing activities		**(51,577)**	**(14,837)**
Cash flows from financing activities			
Proceeds from borrowings		-	833,837
Interest income on cash deposits		46,699	-
Repayment of borrowings		(180,155)	(10,896)
Proceeds from share and option issue		7,545,145	38,174
Share issue transaction costs		(658,408)	-
Net cash flows from (used in) financing activities		**6,753,281**	**861,115**
Cash and cash equivalents at beginning of period	**9**	**378,448**	**37,622**
Net increase (decrease) in cash and cash equivalents		3,136,451	331,281
Exchange rate adjustments to balances held in foreign currencies		(17,822)	9,545
Cash and cash equivalents at the end of the year	**9**	**3,497,077**	**378,448**

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

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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 2016 was authorised for issue in accordance with a resolution of the Directors on 27 February 2017.

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

The principal activity of the Group during the period was the development and commercialisation of hardware and software acoustic 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 include Australian Accounting Standards ("AASB"). Compliance with AASBs 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 Company 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.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. 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

During the year ended 31 December 2016, the Group incurred losses of $4,939,819 and net cash outflows from operating activities of $3,565,253, with cash on hand at 31 December 2016 of $3,497,077.

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.

While current forecasts indicate the Group has sufficient funds to operate for more than 12 months from the date of this report, the Group's ability to continue as a going concern beyond this period is dependent on generating additional revenues from operations, raising further capital and / or reducing costs, thus resulting in a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe that there are reasonable grounds to believe that the Group will continue as a going concern post the 12 month period to February 2018, after consideration of the following factors:

- the Group expects to generate increased revenues from the sale of DroneGun and DroneShield detection products within the next 12 months and beyond;
- the Company has the ability to issue additional shares to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raising completed during financial year ended 31 December 2016;
- while the market price for the Company's shares remains above the exercise price of its listed options of 22c/share, the Directors expect option holders to exercise their options resulting in further capital inflows – with 3,006,766 already exercised as at 27 February 2017 with proceeds received by the Group of $661,489, and 31,993,234 remaining outstanding listed options with exercise value of $7,038,511;
- the Group also has the ability to scale down its operations in order to curtail expenditure in the event insufficient cash is available to meet projected expenditure.

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Notes to the Financial Statements (continued)

(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.

Restructure accounting

On 22 June 2016, DroneShield Limited wholly acquired DroneShield LLC and listed on the ASX.

Under the accounting standard applicable to business acquisitions, AASB 3: *Business Combinations*, the acquisition does not meet the definition of a business combination as DroneShield Limited did not meet the definition of a business at the date of acquisition.

The acquisition of DroneShield LLC by DroneShield Limited is deemed to be a restructure, and the financial statements are a continuation of the DroneShield LLC company. In relation to the Consolidated Statement of Profit or Loss and Other Comprehensive Income, expenses incurred by DroneShield Limited, prior to the acquisition of DroneShield LLC, have been treated as an expense of the Group incurred as part of the listing process.

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

Consolidated Statement of Financial Position

The 31 December 2016 and 31 December 2015 Consolidated Statement of Financial Position represents both DroneShield Limited and DroneShield LLC.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

The 31 December 2016 Consolidated Statement of Profit or Loss and Other Comprehensive Income represents 12 months of activities of DroneShield LLC and DroneShield Limited. The 31 December 2015 Statement of Profit or Loss and Other Comprehensive Income represents 12 months of DroneShield LLC activity and expenses incurred by DroneShield Limited from its date of incorporation (4 November 2015) to 31 December 2015.

Consolidated Statement of Changes in Equity

The 31 December 2016 Consolidated Statement of Changes in Equity comprises changes in equity for the year ended 31 December 2016 of DroneShield LLC and DroneShield Limited. The 31 December 2015 Consolidated Statement of Changes in Equity represents changes in equity for the 12 month period of DroneShield LLC and changes in equity of DroneShield Limited from its date of incorporation (4 November 2015) to 31 December 2015.

Consolidated Statement of Cash Flows

The 31 December 2016 Consolidated Statement of Cash Flows represents the cash flows for the year ended 31 December 2016 of DroneShield LLC and DroneShield Limited. The 31 December 2015 Consolidated Statement of Cash Flows represents the cash flows for the year ended 31 December 2015 of DroneShield LLC and the cash flows of DroneShield Limited from its date of incorporation (4 November 2015) to 31 December 2015.

(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

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The Group enters into sales transactions involving either an outright sale to the client or on a subscription basis. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

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Notes to the Financial Statements *continued*

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(d) Revenue recognition *continued*

Outright sale of goods

Outright sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

Subscription sales

The Group generates revenues from subscription sales which also includes transferring ownership of goods to the customer. The revenue from such transactions is recognised on a monthly basis, with equal amounts for each month recognised over the life of the subscription agreement.

Interest income

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

(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.

(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 cash flow statement 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.

(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.

Notes to the Financial Statements *continued*

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(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 and generally due for settlement prior to the shipment of goods.

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.

(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. Cost includes all expenses directly attributable to the manufacturing process as well as related production overheads. 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

Leases where the lessor retains substantially all of the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases are recognised as an expense on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

(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 at their nominal values 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 recognised.

(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.

Notes to the Financial Statements *continued*

(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	5 years
R&D equipment	5 years
Demonstration equipment	5 years

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 computer software. Amortisation is recognised on a straight-line basis over an estimated useful economic life of 3 to 7 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.

(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 (as if all options have been exercised).

(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. All development costs incurred did not meet the criteria for recognition as an intangible asset and have been expensed.

(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 3.

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).

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Notes to the Financial Statements *continued*

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(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) 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.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact to group	Application date of standard	Application date for group
AASB 9 Financial Instruments	AASB 9 is a new standard that replaces AASB 139. The new standard includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and introduces a reformed approach to hedge accounting. The standard is available for early adoption.	The new standard is not expected to have a significant impact on the financial statements.	1 January 2018	1 January 2018
AASB 15 Revenue from contracts with customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer- so the notion of control replaces the existing notion of risks and rewards. The standard is available for early adoption.	The new standard will likely impact the manner in which subscription sales are currently accounted for, potentially advancing revenue streams when compared with the treatment currently applied which spreads the revenue over the life of the subscription.	1 January 2018	1 January 2018
AASB 16 Leases	AASB 16 is a new standard that replaces AASB 117. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on the balance sheet, with limited exceptions for short term leases and leases of low value assets.	The Group has not yet fully assessed the impact of the changes.	1 January 2019	1 January 2019

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 about the carrying amounts of assets and liabilities 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 the carrying amounts of assets and liabilities (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 3.

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Notes to the Financial Statements *continued*

3. Options issued

During the year, a number of options were issued to Directors, management and other employees of the entity, as well as to the Group's corporate advisors and investors who subscribed to shares under DroneShield's IPO. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. Note that the issue date for all options, with the exception of those in Class I, was 22 June 2016. Class I Options were issued on 20 December 2016.

	Class A[13] Options	Class B Options	Class C[14] Options	Class D[15] Options	Class E Options	Class F Options	Class G Options	Class H Options	Class I Options	Other[16] Options	Total option expense for the year
No of options	10,000,000	9,050,000	1,000,000	3,300,000	0	800,000	0	800,000	200,000	35,000,000	
Expiry (years)	3	3	3.75	4	4.75	5	5.75	6	3	2	
Exercise price ($)	0.22	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.22	
Vesting period (days)	Immediately	Immediately	163	365	645	730	1,010	1,095	Immediately	Immediately	
Underlying volatility	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	
Risk free interest rate	1.62%	1.58%	1.58%	1.72%	1.72%	1.72%	1.72%	1.72%	2.02%	1.62%	
Calculated fair value of each option ($)	0.1084	0.0942	0.1068	0.1107	0.1208	0.1238	0.1321	0.1346	0.1312	0.0896	
Total expense recorded for the period ended 31 December 2016 ($)	-	852,733	106,790	186,241	-	26,056	-	18,877	26,239	*	1,216,936

[13] Class A options were issued to the brokers as part of the IPO and included as part of share transaction costs and treated as a deduction from equity (of $1,083,897, see note 16) rather than being expensed.

[14] On 22 June 2016, 2,500,000 Class C, 2,500,000 Class E and 2,500,000 Class G options were issued to James Walker, the then-CEO of the Group. On James Walker's resignation on 2 December 2016, the following options lapsed: 1,500,000 Class C options, all Class E options and all Class G options. The remaining 1,000,000 Class C options vested on 2 December 2016.

[15] Class D, F and H options carry the escrow restrictions of continuous employment to 22 June 2017; 22 June 2018 and 22 June 2019 respectively.

[16] Other Options were issued to all shareholders who subscribed for shares under the IPO for $nil consideration. Accordingly, the value of these options ($3,135,853) has been assigned to the option reserve, with a corresponding decrease in contributed equity.

Notes to the Financial Statements *continued*

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	31 December 2016 $	31 December 2015 $
4. Revenue		
Subscription sales	19,168	-
Hardware sales	57,648	123,625
Shipping income	7,582	8,560
Total revenue	**84,398**	**132,185**
5. Other revenue and income		
Interest revenue	43,023	
Other revenue	3,676	21,338
Net foreign exchange gains (losses)	1,299	-
Total other revenue and income	**47,998**	**21,338**
6. Corporate and support expense		
Office costs and communication	144,373	15,105
Payroll	908,643	12,280
Legal	708,985	201,208
Travel and entertainment	204,011	12,535
Marketing and advertising	96,086	94,322
Professional expenses	205,728	25,534
Other	10,610	2,959
Total corporate and support expense	**2,278,436**	**363,943**
7. Corporate governance expense		
Audit	75,096	41,487
Board and Advisory Board expenses	203,184	8,018
Professional expenses	12,410	-
Insurance	38,917	-
Travel and entertainment	14,965	-
ASX fees	102,959	-
Total corporate governance expense	**447,531**	**49,505**

Notes to the Financial Statements *continued*

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	31 December 2016 $	31 December 2015 $
8. Income taxes relating to continuing operations		
The components of tax recognised in profit or loss include:		
Current tax	-	-
Deferred tax	-	-
Total tax expense	**-**	**-**
The income tax for the year can be reconciled to the accounting profit as follows:		
Income tax expense/ (credit) calculated at 30% (2015: 30%)	(1,481,946)	(144,751)
Effect of tax rates of subsidiaries operating in other jurisdictions	-	-
Tax effect of amounts which are not deductible (taxable):		
Share based payment expense	365,081	-
Effect of unused tax losses not recognised as deferred tax assets	1,116,865	144,751
Income tax expense/ (credit) recognised in profit or loss (relating to continuing operations)	-	-

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

The Company has accumulated tax losses of $1,261,616. 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.

9. Cash and cash equivalents		
Cash at bank and in hand	997,077	378,448
Short-term deposits	2,500,000	-
Total cash and cash equivalents	**3,497,077**	**378,448**
10. Trade and other receivables		
Trade receivables	87,110	6,285
Prepayments	179,517	-
Total trade and other receivables	**266,627**	**6,285**
11. Inventories		
Finished goods inventory	**238,273**	**16,739**

Notes to the Financial Statements *continued*

12. Plant and equipment and intangible assets

	R&D equipment $	Demonstration equipment $	Office equipment $	Intangible Assets (software) $	Total $
Balance at 1 January 2015	**-**	**-**	**-**	**-**	**-**
Additions	13,142	1,472	-	-	14,614
Disposals	-	-	-	-	-
Depreciation/Amortisation	(1,231)	(385)	-	-	(1,616)
Exchange differences	590	54	-	-	644
Balance at 31 December 2015	**12,501**	**1,141**	**-**	**-**	**13,642**
Additions	-	11,527	30,676	9,424	51,627
Disposals	-	-	-	-	-
Depreciation/Amortisation	(2,384)	(674)	(2,640)	(345)	(6,043)
Exchange differences	(32)	-	(39)	-	(71)
Balance at 31 December 2016	**10,085**	**11,994**	**27,997**	**9,079**	**59,155**

	31 December 2016 $	31 December 2015 $
13. Borrowings		
Convertible note and warrants	-	714,655
Other borrowings	-	125,856
Total Borrowings	**-**	**840,511**

Convertible note and warrants

During the year ended 31 December 2015, DroneShield LLC entered into agreements with Long Hill Capital, LLC for two separate interest-free Senior Secured Convertible Notes, issued on 29 September 2015 in respect of the following amounts, totalling $714,655:

- US$250,000. Due to the issuance of a warrant, the fair value of this Note was $303,359 (US$221,270) at 31 December 2015.
- US$300,000. This Note was valued at $411,296 (US$300,000) at 31 December 2015.

On 1 April 2016, both Notes, along with an additional Note which was issued in early 2016, were converted into preferred units in the issued capital of DroneShield LLC.

Other borrowings

Other borrowings of $125,856 at 31 December 2015 relate to loans in the form of interest-free Promissory Notes. These Notes were repaid in full in July 2016.

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Notes to the Financial Statements *continued*

For personal use only

	31 December 2016 $	31 December 2015 $
14. Provisions		
Employee entitlements	**48,079**	**971**
15. Other liabilities		
Accrued expenses	402,434	19,682
Revenue received in advance	186,111	-
Total other financial liabilities	**588,545**	**19,682**

	No. of shares (note e)	31 December 2016 $
16. Contributed equity		
Balance at beginning of period (1 January 2016)	**1**	**28,320**
Shares issued on conversion of warrants and convertible notes (note a)	-	1,203,174
Shares issued during period (note b)	35,000,000	3,864,147
Transaction costs in relation to share issue (note c)	-	(1,694,648)
Shares issued to the LLC owners (note d)	100,000,000	-
Balance at end of period (31 December 2016)	**135,000,001**	**3,400,993**

Note (a): In March 2016, shares in DroneShield LLC were issued on conversation of warrants and convertible notes (note 13 for detail on convertible notes).

Note (b): During the year, the Company issued 35,000,000 shares under the IPO to raise $7,000,000. Stapled to each share was one listed option. The values of these listed options, calculated as $3,135,853, has been assigned to the Option Reserve, with the corresponding entry against Share Capital (offsetting $7,000,000 to give $3,864,147). The assumption used to value these options are set out in note 3.

Note (c): Included in transaction costs are the value of options issued to the brokers of $1,083,897. The assumptions used to value these options are set out at note 3.

Note (d): As part of the acquisition of DroneShield LLC by DroneShield Limited, the previous owners of DroneShield LLC transferred their shareholdings in DroneShield LLC in exchange for 100,000,000 shares in DroneShield Limited. In addition, these parties may be issued up to 45,000,000 additional shares (“Performance Shares”) in the Company upon the achievement of certain milestones (refer to note 25).

Note (e): The number of shares disclosed is the number of shares in DroneShield Limited, while the carrying value of shares ($) discloses the opening share capital of DroneShield LLC on 1 January 2016, adjusted for movements in DroneShield LLC share capital, prior to the IPO, and all movements in DroneShield Limited’s share capital subsequent to the IPO.

Notes to the Financial Statements *continued*

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17. Commitments

(a) Lease commitments

The cash flows in the table below relate to the minimum payments for non-cancellable operating leases. In addition to the cash flows below, at 31 December 2016 a bank guarantee for $133,035 exists in relation to the office leasing agreement.

	Minimum lease payments due		
	Within 1 year $	**1-5 years $**	**After 5 years $**
31 December 2015	-	-	-
31 December 2016	124,219	186,902	-

(b) Other commitments

At 31 December 2016, a contractual agreement existed to pay a supplier $105,534 (US$76,000) for the completion of an order. The payment was made subsequent to year end and the goods received in early January. (2015: $0).

18. Key Management Personnel disclosures and related party transactions

(a) KMP Compensation

	31 December 2016 $	**31 December 2015 $**
Short-term employee benefits	781,528	18,167
Post-employment benefits	47,071	981
Termination payments	138,389	-
Share-based payments	1,031,802	-
Total KMP compensation	**1,998,790**	**19,148**

Detailed remuneration disclosures are provided in the Remuneration Report on pages 24 to 28.

(b) Other transactions with related parties

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

- Azalea Consulting Pty Ltd, an entity associated with Mr. Winton Willesee, received payments totalling $114,300 (2015: $0) in relation to Director services, administration and Company Secretarial services provided to the Group. A balance of $10,000 was outstanding at year end (2015: $8,820).

Notes to the Financial Statements *continued*

19. Parent entity financial information

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

	31 December 2016 $	31 December 2015 $
Statement of financial Position		
Current assets	278,331	529,965
Total assets	292,809	542,965
Current liabilities	148,295	916,491
Total liabilities	148,295	916,491
Net assets	144,514	(373,526)
Share Capital	1,322,547	119,374
Reserves	41,480	(11,785)
Accumulated losses	(1,219,513)	(481,115)
Total Equity	144,514	(373,526)
Loss for the year	**(738,399)**	**(414,029)**
Other comprehensive income/ loss	**-**	**-**
Total comprehensive loss	**(738,399)**	**(414,029)**

20. 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

There is limited credit risk from Trade Receivables within the Group as it currently requests payment in full before an item is shipped. Accordingly, the Trade Receivable balance at 31 December 2016 relates to invoices raised in respect of deposits for the sale of goods.

With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents and prepayments, 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 2016. The bulk of the 'other receivables' balance relates to a deposit for inventory which was received in early January.

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Notes to the Financial Statements *continued*

20. Financial risk management *continued*

Credit risk (continued)

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 2016 $	31 December 2015 $
Cash and cash equivalents	3,497,077	378,448
Trade and other receivables	266,627	6,285

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 and the U.S., and accordingly transactions currently occur in a mix of USD and AUD. As such, 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 contract 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 2016 $	31 December 2015 $
Cash	*129,902*	*309,643*
Trade and other receivables	*-*	*6,285*
Total Financial assets	**129,902**	**315,928**
Trade and other payables	*(41,998)*	*(75,007)*
Provisions	*(7,845)*	*(971)*
Borrowings	*-*	*(840,513)*
Total Financial liabilities	**(49,843)**	**(916,491)**

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 2016 $	31 December 2015 $
+ 10%	(8,042)	60,056
- 10%	8,042	(60,056)

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.

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Notes to the Financial Statements *continued*

20. Financial risk management *continued*

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 $	Over 5 years $	Total contractual cash flows $	Carrying amount (assets)/ liabilities $
As at 31 December 2015							
Trade and other payables	87,004	-	-	-	-	87,004	87,004
Other financial liabilities	20,653	-	840,511	-	-	861,164	861,164
Total	**107,657**	**-**	**840,511**	**-**	**-**	**948,168**	**948,168**
As at 31 December 2016							
Trade and other payables	34,757	-	-	-	-	34,757	34,757
Other financial liabilities	450,513	-	-	-	-	450,513	450,513
Total	**485,270**	**-**	**-**	**-**	**-**	**485,270**	**485,270**

	31 December 2016 $	31 December 2015 $
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	(0.07)	(482,502)
(b) Dilutive earnings per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company	(0.07)	(482,502)
(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	71,013,699	1

Options and Performance Shares

Class A and Other Options (being Class B to Class I options) set out in note 3 and Performance Shares set out in note 25 are not included in the calculation of diluted earnings per share because they are considered to be antidilutive for the period ended 31 December 2016. These options and shares could potentially dilute basic earnings per share in future periods.

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Notes to the Financial Statements *continued*

22. Contingent liabilities

At 31 December 2016, a contingent liability exists in relation to a termination payment to a former employee of between $nil and $65,000, contingent on the achievement of certain Group performance milestones.

23. 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 2016 $	31 December 2015 $
Audit and assurance services	63,796	-
Other services (investigating accountants report for DroneShield's IPO)	7,975	25,009
Taxation services	12,773	-
Total Auditor's remuneration	**84,544**	**25,009**

24. 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 2016 and 31 December 2015.

Segment performance 31 December 2016	USA $	Australia $	Elimination $	Total $
External sales	43,751	40,647	-	**84,398**
Total segment revenue	43,751	40,647	-	**84,398**
Interest income	-	43,023	-	**43,023**
Depreciation	(3,805)	(2,238)	-	**(6,043)**
Finance costs	-	-	-	**-**
Income tax expense	-	-	-	**-**
Loss after income tax expense	(738,399)	(4,201,420)	-	**(4,939,819)**
Assets and liabilities				
Segment assets	292,809	3,866,775	(98,452)	**4,061,132**
Segment liabilities	(148,295)	(621,538)	98,452	**(671,381)**

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Notes to the Financial Statements *continued*

24. Segment information *continued*

Segment performance 31 December 2015	USA $	Australia $	Elimination $	Total $
External sales	132,185	-		**132,185**
Total segment revenue	132,185	-		**132,185**
Interest income	-	-		**-**
Depreciation	(1,616)	-		**(1,616)**
Finance costs	-	-		**-**
Income tax expense	-	-		**-**
Loss after income tax expense	(414,029)	(68,473)		**(482,502)**
Assets and liabilities				
Segment assets	542,965	68,804	(196,655)	**415,114**
Segment liabilities	(916,491)	(228,332)	196,655	**(948,168)**

25. Changes in composition of entity

On 22 June 2016, the Company's securities were listed on the ASX following the completion of its IPO under which it raised $7,000,000 through the issuance of 35,000,000 shares together with 35,000,000 attaching listed options at $0.20 per share/option.

A further 100,000,001 shares were issued to the members of DroneShield LLC in consideration for their interests in that business and DroneShield LLC became a wholly owned subsidiary of the Company.

A summary of the capital structure of the Company at 31 December 2016 is set out in the table below:

Shareholders	Shares	Unlisted Options	Listed DROO options	Performance Shares
Existing shareholders	100,000,001	-	-	45,000,000
IPO shareholders	35,000,000	-	35,000,000	-
Options issued to Directors, Management and Advisory Board	-	15,150,000	-	-
Broker Options	-	10,000,000	-	-
Total	**135,000,001**	**25,150,000**	**35,000,000**	**45,000,000**

Unlisted Options:

- 19,900,000 Unlisted Options issued to Directors and Management are exercisable at 30 cents each with various expiry dates ranging between 22 June 2019 and 22 June 2022. These Options are subject to various escrow and vesting conditions relating to length of employment with the Company. 6,500,000 of these options lapsed on James Walker's resignation on 22 December 2016. See note 3 for further details.
- 1,750,000 Unlisted Options issued to the Company's Advisory Committee are exercisable at 30 cents each on or before 22 June 2019. These options have fully vested and are not subject to any escrow restrictions.
- 10,000,000 Unlisted Options issued to the Broker of the IPO are exercisable at 22 cents each on or before 22 June 2019, and are subject to escrow restrictions until 22 June 2018.

Listed DROO Options:

These are exercisable at 22 cents on or before 22 Jun 2018.

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Notes to the Financial Statements *continued*

25 Changes in composition of entity *continued*

Performance shares:

Existing shareholders of DroneShield LLC were granted 45,000,000 Performance Shares with the following vesting conditions, relating to the achievement of various performance milestones (with Revenue and EBIT targets in relation to the acoustic drone detection system):

Shareholders	Shares	Performance Shares[1]	Number in issue
Class A Performance Shares	22-Jun-18	30 day volume weighted average price >$0.30 + 20 paid system installations within 24 months of listing date	15,000,000
Class B Performance Shares	22-Jun-18	Revenue: $2,500,000 in any 12 month period or $7,000,000 cumulative within 36 months of listing date	15,000,000
Class C Performance Shares	22-Jun-18	EBIT: $1,000,000 annual (financial year) or $3,000,000 cumulative within 36 months of listing date	15,000,000

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

	31 December 2016 $	31 December 2015 $
Operating loss for the year after tax	**(4,939,819)**	**(482,502)**
Add (deduct) non cash items- income and expenses		
Depreciation	6,043	1,616
Provisions	47,108	971
Share option expense	1,216,936	-
Effects of foreign currency translation	71,089	(99,674)
Change in operating assets and liabilities		
(Increase) in trade and other receivables	(260,342)	(6,285)
(Increase) in inventory	(221,534)	(16,739)
Increase in trade and other payables	515,266	87,616
Net cash flows from (used in) operating activities	**(3,565,253)**	**(514,997)**

27. Events after the reporting date

On 24 January 2017, Oleg Vornik, who had been the Chief Financial Officer of the Group for over a year, was appointed CEO and Managing Director. Additionally, Winton Willesee resigned as an Independent Non-Executive Director, and Robert Clisdell was appointed as a Non-Executive Director.

As at 27 February 2017, 3,006,766 listed share options had been exercised in 2017, resulting in proceeds to the Group of $661,489 and the issue of 3,006,766 new shares of the Company, bringing the total number of shares in issue at 27 February 2017 to 138,006,767.

No other matter or circumstance has arisen since 31 December 2016 which has significantly affected or may significantly affect:

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

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Directors' Declaration

1. In the opinion of the Directors:

   (a) the consolidated financial statements and notes set out on pages 30 to 52 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 2016 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 2016 required by section 295A of the *Corporations Act 2011*.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
27 February 2017

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Quality Audit Services

DRONESHIELD LIMITED
ABN 26 608 915 859
INDEPENDENT AUDITOR'S REPORT

To the members of DroneShield Limited:

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

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 2016, 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, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of DroneShield Limited 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 2016 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.

Material Uncertainty Regarding Going Concern

We draw attention to Note 1(a) in the financial report, which indicates that the Group incurred a net loss of $4,939,819 during the year ended 31 December 2016 and had net assets of $3,389,751. As stated in Note 1(a), these events or conditions, along with other matters as set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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HLB Mann Judd Assurance

DRONESHIELD LIMITED
ABN 26 608 915 859
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accounting for listing of business	How our audit addressed the key audit matter
On 22 June 2016, DroneShield Limited acquired 100% of the issued capital of DroneShield LLC and listed on the Australian Securities Exchange. The accounting for this transaction is explained in note 1(c) to the financial statements. Management considered that the transaction did not meet the definition of a Business Combination as defined under Australian Accounting Standards, and therefore researched other accounting standards and guidance issued by global accounting bodies in determining the accounting treatment. This was a key audit matter as the accounting for the transaction is not specifically set out in accounting standards, requiring management to research other guidance issued by global accounting bodies and applying judgement in its accounting treatment, and judgement is involved in selecting an appropriate accounting policy.	We reviewed the accounting treatment to assess whether the transaction met the definition of a Business Combination under accounting standards, and assessed the treatment under the requirements of accounting standards and other guidance issued by global accounting bodies. We assessed whether the Group's disclosures met the requirements of accounting standards and clearly set out the methodology adopted by management.

Valuation of Share Options	How our audit addressed the key audit matter
The company issued a number of share options to directors, management, employees and various advisors to and investors in, DroneShield Limited. The company valued these options to assess their fair value and obtained an independent review of management's valuation by a professionally qualified expert. The key assumptions used in determining the fair value of the options are set out in Note 3 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.	We reviewed the valuation of the valuations of the options, and the methodology used. We also reviewed the key assumptions in the valuation. We assessed the competence, independence and integrity of the external expert appointed by management. We assessed whether the Group's disclosures met the requirements of various accounting standards.

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 2016, 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.

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DRONESHIELD LIMITED
ABN 26 608 915 859
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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.

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.

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DRONESHIELD LIMITED
ABN 26 608 915 859
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 24 to 28 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of DroneShield for the year ended 31 December 2016 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

A Smith

HLB Mann Judd (NSW) Pty Ltd
Chartered Accountants

A G Smith
Director

Sydney, NSW
27 February 2017

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Shareholder Information

Holdings distribution at 10 February 2017

Holding Ranges	Holders	Total Shares	% Issued Share Capital
1 - 1,000	37	8,821	0.01%
1,001 - 5,000	320	924,498	0.67%
5,001 - 10,000	139	1,230,273	0.89%
10,001 - 100,000	233	7,606,822	5.52%
100,001 - over	35	128,092,217	92.91%
Total	**764**	**137,862,631**	**100.00%**

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

Twenty largest shareholders at 10 February 2017

Position	Holder Name	Shares Held	% Issued Share Capital
1	LONG HILL CAPITAL LLC	55,000,001	39.89%
2	Eagle's View	22,141,651	16.06%
3	BRIAN HEARING	17,550,000	12.73%
4	JOHN FRANKLIN	14,850,000	10.77%
5	LAURENCE ROSENFELD	4,500,000	3.26%
5	ROBERT DINKEL & KATHLEEN DINKEL	4,500,000	3.26%
6	AZOTH LLC	2,250,000	1.63%
7	WEST MEADOW LLC	1,350,000	0.98%
8	CHESAPEAKE CAPITAL LTD	1,305,000	0.95%
9	BNP PARIBAS NOMS PTY LTD <DRP>	1,210,118	0.88%
10	BNP PARIBAS NOMS PTY LTD <UOB KAY HIAN PRIV LTD DRP>	457,500	0.33%
11	T T NICHOLLS PTY LTD <SUPERANNUATION ACCOUNT>	300,000	0.22%
12	KIRRI COVE PTY LIMITED <KIRRI COVE SUPER FUND A/C>	270,170	0.20%
13	CHRISTIE JAMES FUNDS MANAGEMENT PTY LTD <CHRISTIE JAMES S/F A/C>	250,000	0.18%
13	MR ANTHONY BLUNDELL MAPLE-BROWN	250,000	0.18%
13	PAUL BROAD	250,000	0.18%
14	TOOHEY NOMINEES PTY LTD	227,022	0.16%
15	MR ALAN JOHN STRUBY	215,950	0.16%
16	ELITE4FITNESS PTY LTD	194,475	0.14%
17	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	193,664	0.14%
18	MARICH NOMINEES PTY LTD <R MARICH SUPERANNUATION A/C>	159,000	0.12%
19	MR HUGO EDUARDO ESPINOSA-FRENCH	153,916	0.11%
20	MS WANG XIAO	145,000	0.11%
Total		**127,723,467**	**92.65%**
Balance of register		10,139,164	7.35%
Total issued capital		**137,862,631**	**100.00%**

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