

**Appendix 4D
For the half-year ended 30 June 2024**

**DroneShield Limited
ABN 26 608 915 859**

1. Reporting period

The financial information contained in the attached consolidated financial report is for the half-year ended 30 June 2024. The previous corresponding period was the half-year ended 30 June 2023.

Results for announcement to the market				
	Up/ Down	% Movement		1H 2024 \$
Revenue from continuing activities	Up	108%	to	23,989,654
Loss from continuing activities after tax attributable to members	Up	64%	to	(4,803,591)
Net loss attributable to members	Up	64%	to	(4,803,591)
Dividends: No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

2. Commentary related to the above results

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

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

30 June 2024: \$0.30.; 31 December 2023: \$0.15.

4. There was no change in control during the half-year ended 30 June 2024

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

6. There is no dividend reinvestment plan in operation

7. There are no associates or joint venture entities

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

The information contained within this report is to be read in conjunction with DroneShield's 2023 Annual Report and any announcements to the market during the half-year period ending 30 June 2024. Further information regarding the Group and its business activities can be obtained by visiting the Group's website at www.droneshield.com

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DRONESHIELD

Half-year Report

For the Half-year Ended
30 June 2024

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Image: DroneSentry-X Mk2™ expeditionary setup

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

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Corporate Information

Directors & Management

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

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Stock Exchange Listing

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

Directors' Report

Your Directors present their report for DroneShield Limited (the "Company") and its controlled entities (collectively "the Group") for the half-year ended 30 June 2024.

Directors

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

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

Business Overview

DroneShield is an Australian company with its head office in Sydney, subsidiary operation in the US, and presence in over 70 countries globally, specialising in counterdrone, Electronic Warfare, RF sensing, Artificial Intelligence and Machine Learning, Sensor Fusion, rapid prototyping and MIL-SPEC manufacturing. The customer base includes military, intelligence agencies, Government, law enforcement, critical infrastructure and civilian customers throughout the world.

DroneShield offers its customers off-the-shelf products and bespoke solutions designed to suit a variety of terrestrial, maritime or airborne platforms.

DroneShield's unique products use proprietary Artificial Intelligence-based software and hardware to detect drones in a combination of radio frequency (RF), radar, optical and thermal camera-based systems to instantly alert users in real-time, ensuring any potential threats can be addressed, and (where lawful) interdict drones using smart RF defeat technologies.

The Company has 5 revenue streams:

- Hardware sales;
- Service revenue, including long term Research and Development contracts;
- Subscriptions-as-a-Service (SaaS) associated with its hardware, which is expected to rise over time as a share of overall revenue;
- Warranty revenue; and
- Shipping revenue.

The product lines currently include the following:

- DroneGun Tactical™ – a portable tactical rifle-shaped drone disruptor;
- DroneGun Mk3™ and DroneGun Mk4™ – pistol-shaped drone disruptors;
- RfPatrol Mk2™ – a body-worn passive RF drone detector;
- DroneSentry-X™ (including DroneSentry Mk2™) – a vehicle/ship/rooftop based detect-and-defeat system; and
- DroneSentry™ – a multi-sensor (RF, radar, optical and thermal camera) drone detection system; combined with automated drone/drone swarm defeat capability and utilising proprietary DroneSentry-C2™ command-and-control sensorfusion software.

In its rapidly emerging electronic warfare business, DroneShield utilises its cutting-edge Artificial Intelligence signal processing capability to accurately detect, classify and track complex signals. This includes current execution of its third contract with a FVEY (Five Eyes, referring to US, UK, Canada, Australia and NZ) Department of Defence on a 2-year, \$9.9 million project.

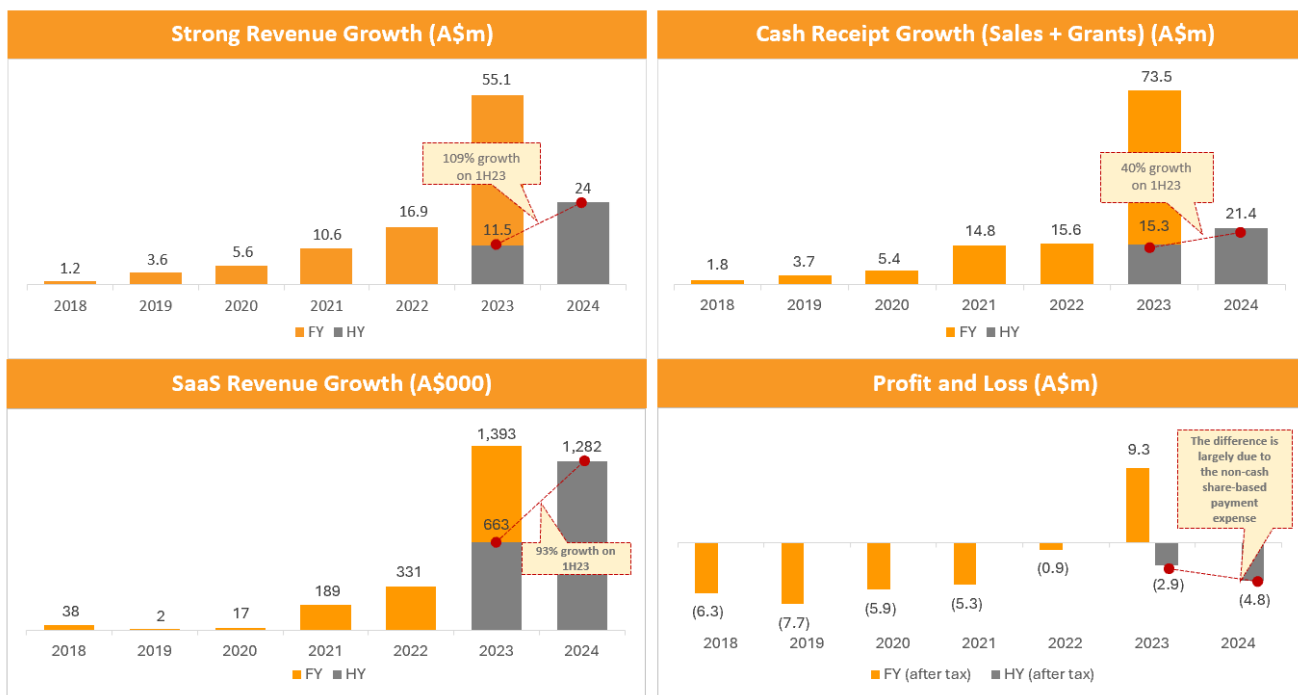
Review of Operations and Financial Results

The Group achieved revenue from customers of \$23.3 million for the 1H24, an increase of 106% relative to 1H23 of \$11.3 million. During the same period, the Group recorded \$21.3 million in customer cash receipts, a growth of 40% over the 1H23 customer cash receipts of \$15.2 million. The difference between cash receipts and revenue is due to cash receipts for 1H24 including \$1 million of revenue recognised in FY2023 and revenue for 1H24 including \$3 million of cash received in July 2024.

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

The Group recognised a net loss after tax for the 1H24 period of \$4.8 million, compared to 1H23 loss of \$2.9 million. When eliminating the share-based payment expense from the 1H24 and 1H23 net loss, the net loss for both years is steady at \$2.1 million. The share-based payment expense for 1H24 was \$2.7 million, related to options issued to the Company's key employees and Directors, an increase of 207% relative to 1H23 of \$874,414. This is due to the issue of 51.4 million options during 1H24 compared to 3.8 million options issued during 1H23. Of the 51.4 million options issued, 45 million were Performance Options where vesting is linked to the Group's revenue or cash receipts. Equity-based compensation is a key incentive of team performance in DroneShield's rapidly growing business, which enables the Group to attract and retain best talent, whilst minimising the cash spend at this stage of the Company's growth.

The second half of the year has traditionally been a stronger period for the Company, with the 2H23 being 79% of the total FY2023 revenues.



Key highlights during and subsequent to the period include:

- [Successful Completion of \\$120 million Underwritten Placement](#) announced on 1 August 2024.
- [\\$4.7 million Contract](#) announced 20 June 2024, for a multiple vehicle-based C-UxS systems from a non-government Swiss international customer.
- [\\$5.7 million U.S. Government Contract](#) announced 22 May 2024, a repeat order for several C-UxS systems.
- [\\$15 million Share Purchase Plan \(SPP\)](#) completed 7 May 2024.
- [Successful Completion of \\$100 million Underwritten Placement](#) announced on 22 April 2024.
- [NATO Framework Agreement Signed](#) announced on 17 April 2024.
- [\\$4.3 million U.S. Government Contract](#) announced 14 March 2024, a repeat order for handheld C-UxS systems.
- [Launch of DroneSentry-X Mk2 Expeditionary Fixed Site Kit](#) announced on 30 January 2024.
- [1Q24 AI Firmware Update](#) announced on 22 January 2024, commencement of the release of a major update across its global fleet of counterdrone (C-UAS) devices.

DroneShield continues to be in a highly favourable environment, with both the counterdrone industry rapidly growing and more generally defence and security budgets rising. The Company has a number of unique differentiators (technically and commercially). The conflicts in Ukraine, Middle East and elsewhere globally are demonstrating the role of drones in modern warfare and driving procurement programs of Government customers around the world seeking to be prepared for the next conflict.

Material Business Risks

DroneShield is required to report on its material business risks, in line with ASX regulations. There are various internal and external risks that may have a material impact on the Company’s future financial performance and economic sustainability. The Company makes every effort to identify material risks and to manage these effectively.

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.

The Company’s Risk Management and Compliance Policy details the Company’s risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks. The Risk Management and Compliance Policy is contained in the Corporate Governance Plan which is available on the Company’s website at: <https://www.droneshield.com/investors>.

The following is a summary of material business risks that could adversely impact the Company’s financial and operating performance and prospects. These risks do not represent an exhaustive list of risks the Company is exposed to, nor are they in order of significance.

Business Strategy Risk	The Company’s growth and financial performance is dependent on its ability to successfully execute its growth strategy. If the Company fails to execute on its business strategy, its business, financial condition and results of operations could be materially and adversely affected.
Future Profitability	The Company’s business requires significant expenditure on marketing, business development and personnel, and substantial capital investment in production facilities. Accordingly, the Company may not reach and maintain profitability and, to the extent such expenditure and investment continue, may suffer a shortage of working capital.
Counterparty Risk	The Company conducts a significant proportion of its business with customers outside of Australia. Risk arises from the Company’s restricted ability and the cost of recovering payments in foreign jurisdictions. The Company mitigates this risk by generally requiring substantial or full payment prior to shipment of goods (with some exceptions of highly trusted customers, such as US Government agencies). However, late payments, cancelled orders and bad debts may still occur.
Supply	The Company may experience delivery delays if its contract manufacturers fail to deliver products as agreed. The Company’s products are manufactured by several key contract manufacturers, as well as (on a smaller scale, and for several product lines) the Company’s facility. Any operational issues that impact manufacturers may affect the delivery of the Company’s products. The Company depends on the contract manufacturers to adjust operations according to demand for each product to ensure no backlog in production. Risk arises from an undiversified set of key manufacturers, which may cause delays in delivery if a contracted manufacturer fails to deliver as agreed until the issue is resolved or a new contracted manufacturer is organised.
Government Contracts	A portion of the Company’s revenues may depend on the Company’s ability to do business with the U.S. as well as foreign governments and their various agencies, whether directly or indirectly. Such customers may: <ul style="list-style-type: none"> • award or terminate contracts at their convenience; • terminate, reduce or modify contracts or subcontracts if its requirements or budgetary constraints change; • cancel multi-year contracts and related orders if funds become unavailable; • shift their spending priorities; • adjust contract costs and fees on the basis of audits done by its agencies; • use and practice intellectual property developed in the performance of a government contract or subcontract; • claim rights to intellectual property not properly protected pursuant applicable contract terms;

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	<ul style="list-style-type: none"> • seek penalties and fines exceeding the value of a contract for contract activity that results in the submission of a false claim to the government; • debar the Company or its subsidiaries because of legal and other actions undertaken by or against the Company or its subsidiaries, the Company's officers, directors, shareholders, employees and affiliates, or convictions of the Company's officers, directors, shareholders, employees or affiliates; and • inquire about and investigate business practices and audit compliance with applicable rules and regulations.
Product Liability	When developing and manufacturing new products, defects may arise in the Company's initial releases of the products. Defects could expose the Company to product liability claims or litigation, resulting in monetary damages being awarded against the Company. The Company uses contractual clauses to limit such risk; however, not all customers accept these standard clauses. Additionally, the Company has obtained insurance to limit this risk; however, liability from a defect could exceed the Company's insurance coverage.
Litigation	The Company is exposed to possible litigation risks including, but not limited to, intellectual property infringement claims, vendor and customer contractual and common law claims, environmental claims, occupational health and safety claims, and employee claims. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position.
Government Legislation and Export Approvals	<p>Any material adverse changes in government policies or legislation of Australia or any other country where the Company may acquire or operate economic interests may affect the viability and profitability of the Company. Also, some of the Company's products are highly regulated and may be affected by regulatory changes where its suppliers are located, or where it manufactures or it sells the products.</p> <p>Additionally, most of the Company's products are regulated by defence export licensing regimes, including those of Australia and the US. Completion of sales is influenced by obtaining export licences, and will be delayed if those licences are delayed or otherwise not received.</p>
Data Loss, Theft or Corruption	<p>The Company stores data in its own systems and networks and also with a variety of third-party service providers. Exploitation or hacking of any of these systems or networks could lead to corruption, theft or loss of the data which could have a material adverse effect on the Company's business, financial condition and results.</p> <p>Further, if the Company's systems, networks or technology are subject to any type of 'cyber' crime, its technology may be perceived as unsecure, which may lead to a decrease in the number of customers.</p>
Foreign Exchange	The Company will be operating in a variety of jurisdictions (both its customer and its supply chain), including the United States of America and Australia. Consequently, fluctuations in currency exchange rates may adversely or beneficially affect the Company's results or operations and cash flows. For example, the appreciation or depreciation of the US dollar relative to the Australian dollar would result in a foreign currency gain or loss. Any depreciation of currencies in foreign jurisdictions in which the Company operates may result in lower than anticipated revenue, profit and earnings of the Company. Outside of Australia, the Company uses USD pricing for most of its products. Company's expenditure is mostly a mixture of AUD and USD.
Accounting Standards and Tax Laws	The Company operates in multiple jurisdictions with varied tax and reporting regimes. The Company is exposed to the risk of changes to accounting standards, applicable laws or their interpretation which may have a negative effect on the Company, its investments or returns to Shareholders including the risk of non-compliance with reporting or other legal obligations. Any change to the rate of company income tax in jurisdictions in which the Company operates will impact on shareholder returns.
Insurance Coverage	The Company faces various risks in conducting its business and may lack or may not be reasonably able to obtain adequate insurance coverage. The Company has arranged and maintains insurance coverage for its employees (such as health insurance policies for some of its overseas employees, travel insurance, and workers compensation), public liability, professional indemnity, cyber liability, product liability, motor vehicle, marine cargo, Directors & Officers, and general liability covering office and contents; however, it does not currently maintain intellectual property or business interruption insurance. The Company will continue to need to review its insurance requirements periodically. If the Company incurs substantial losses or liabilities and its insurance coverage is unavailable or inadequate to cover such losses or liabilities, the Company's financial position and financial performance may be

	adversely affected, including a material adverse effect on the business, financial condition and results of the Company. Additionally, any claim may cause the Company's premiums to rise or the Company to be uninsurable after the relevant policy period.
Disputes	The activities of the Company may result in disputes with third parties, including, without limitation, the Company's investors, competitors, regulators, partners, distributors, customers, directors, officers and employees, and service providers. The Company may incur substantial costs in connection with such disputes.
Strategies	There are no limits on strategies that the Company may pursue. The strategy may evolve over time for reasons including but not limited to, market developments and trends, technical challenges, the emergence of new or enhanced technology, changing regulation and/or industry practice. As a result, the strategy, approaches, markets and products at present may not reflect the strategies, approaches, markets and products relevant to, or pursued by, the Company in the future. Further, a change in strategy may involve material and as yet unanticipated risks.
Research and Development and Technical Risk	The Company's products are the subject of continuous research and development and need to be substantially developed further in order to enable the Company to sell and subsequently support the products, and to meaningfully improve the products' usability, scalability, efficiency, and accuracy. There are no guarantees that the Company will be able to undertake such research and development successfully. Failure to successfully undertake such research and development, anticipate technical problems, or estimate research and development costs or timeframes accurately will adversely affect the Company's results and viability.
Technology Risk	The Company's market involves rapidly evolving products and technological change. To succeed, the Company will need to research, develop, design, manufacture, assemble, test, market and support substantial enhancements to its existing products and new products, on a timely and cost-effective basis. The Company cannot guarantee that it will be able to engage in research and development at the requisite levels. The Company cannot ensure that it will successfully identify new technological opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner. At the same time, products and technologies developed by others may render the Company's products and systems obsolete or non-competitive.
Financial Environment	<p>Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company and the value of its assets. Factors which contribute to that general economic climate include:</p> <ul style="list-style-type: none"> • contractions in the world economy or increases in rates of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economic activity); • international currency fluctuations and changes in interest rates; • the demand for and supply of capital and finance; • changes in government legislation and regulatory policy, including with regard to rates and types of taxation; and • domestic and international economic and political conditions. <p>Additionally, share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by factors such as:</p> <ul style="list-style-type: none"> • general economic outlook; • interest rates and inflation rates; • currency fluctuations; • changes in investor sentiment toward particular market sectors; • the demand for, and supply of, capital; and • terrorism, pandemics, political instability, or other illegal acts.
Additional Requirements for Capital	The current funds held by the Company are considered sufficient to meet the current proposed objectives of the Company. Additional funding may be required in the event future costs exceed the Company's estimates to effectively implement its business and operations plans, to take advantage of opportunities for acquisitions, joint ventures or other business opportunities, or to meet any unanticipated liabilities or expenses which the Company may incur. The Company may seek to raise further funds through equity or debt financing, joint ventures or other means. Failure to obtain sufficient financing for the Company's activities and future projects may result in delay and indefinite postponement of its research and development programs. Any additional finance may not be available when needed or, if available, the terms of the financing might not be favourable to the Company and might involve substantial dilution to shareholders.

Intellectual Property Rights	<p>A substantial part of the Company's commercial success is dependent on its ability to establish and protect its intellectual property, maintain trade secret protection, and operate without infringing third party rights. There can be no guarantee that the Company's patents are enforceable or that new patent applications will be granted in any jurisdiction. The commercial value of its intellectual property assets is dependent on any relevant legal protections. These legal mechanisms, however, do not guarantee that the intellectual property will be protected or that the Company's competitive position will be maintained. No assurance can be given that employees or third parties will not breach confidentiality agreements, infringe or misappropriate the Company's intellectual property or commercially sensitive information, or that competitors will not be able to produce non infringing competitive products. Competition in retaining and sustaining protection of technologies and the complex nature of technologies can lead to expensive and lengthy disputes for which there can be no guaranteed outcome. There can be no assurance that any intellectual property which the Company (or entities it deals with) may have an interest in now or in the future will afford the Company commercially significant protection of its intellectual property, or that any of the projects that may arise will have commercial applications. It is possible that third parties may assert intellectual property infringement, unfair competition or like claims regarding copyright, design, trade secret, patent, or other intellectual property rights. While the Company is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has or will acquire an interest, such claims, if made, may harm, directly or indirectly, the Company's business. If the Company is forced to defend claims of intellectual property infringement, whether they are with or without merit or are determined in the Company's favour, the costs of such litigation will be potentially significant and may divert management's attention from normal commercial operations. Additionally, securing rights to or developing technologies complementing the Company's existing intellectual property will also play an important part in the commercial success of the Company. There is no guarantee that such rights can be secured or such technologies can be developed.</p>
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Significant Events after the Balance Date

Subsequent to 30 June 2024, the following occurred;

- 1 August 2024
 - Successful completion of \$120 million underwritten placement.

No other matter or circumstance has arisen since 30 June 2024 which has significantly affected or may significantly affect:

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 10.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
27 August 2024

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Auditor's Independence Declaration

To the directors of DroneShield Limited:

As lead auditor for the review of the financial report of DroneShield Limited for the half-year ended 30 June 2024, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

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

**Sydney, NSW
27 August 2024**

**N J Guest
Director**

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	30 June 2024 \$	30 June 2023 \$
Revenue	2	23,989,654	11,546,610
Other income	3	94,832	358,891
Cost of sales		(6,613,859)	(2,342,875)
Product development expense	4	(8,811,275)	(4,434,012)
Sales and customer service expense	5	(4,172,632)	(3,295,939)
Corporate and support expense	6	(6,182,713)	(3,296,447)
Corporate governance expense	7	(820,729)	(596,825)
Share based payment expense	8	(2,682,020)	(874,414)
Loss before income tax		(5,198,742)	(2,935,011)
Income tax benefit		395,151	-
Loss after income tax		(4,803,591)	(2,935,011)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		12,467	(224,070)
Total comprehensive loss for the period		(4,791,124)	(3,159,081)
Basic loss per share	20	(0.78)	(0.60)
Diluted loss per share	20	(0.78)	(0.60)

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

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Consolidated Statement of Financial Position

	Note	30 June 2024 \$	31 December 2023 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	134,284,933	56,696,346
Trade and other receivables	10	18,785,870	8,944,504
Income tax receivable		-	348,994
Inventories	11	41,867,397	18,579,718
Other investments	12	10,138,723	75,000
Total current assets		205,076,923	84,644,562
Non-current assets			
Plant, equipment and intangible assets	13	7,659,863	4,001,670
Right-of-use assets	14	4,667,623	1,925,640
Other investments	12	1,117,025	1,117,696
Deferred tax asset		7,096,496	5,362,337
Total non-current assets		20,541,007	12,407,343
Total assets		225,617,930	97,051,905
LIABILITIES			
Current liabilities			
Trade payables		5,230,481	3,488,243
Employee provisions	15	843,388	591,580
Income tax payable		1,270,094	370,430
Other liabilities	16	20,874,537	15,324,244
Lease liabilities	17	1,246,614	451,435
Total current liabilities		29,465,114	20,225,932
Non-current liabilities			
Employee provisions	15	252,310	140,711
Lease liabilities	17	5,307,638	2,173,969
Total non-current liabilities		5,559,948	2,314,680
Total liabilities		35,025,062	22,540,612
Net assets		190,592,868	74,511,293
EQUITY			
Contributed equity	18	198,568,317	80,377,638
Reserves		7,158,980	5,473,844
Accumulated losses		(15,134,429)	(11,340,189)
Total equity		190,592,868	74,511,293

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

Consolidated Statement of Changes in Equity

	Contributed equity	Options reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 January 2024	80,377,638	4,191,248	1,282,596	(11,340,189)	74,511,293
Transfer from option reserve to accumulated losses	-	(1,009,351)	-	1,009,351	-
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	110,360,240	-	-	-	110,360,240
Net share-based payments movement	-	2,682,020	-	-	2,682,020
Repayment of management/ employee option	7,830,439	-	-	-	7,830,439
	118,190,679	2,682,020	-	-	120,872,699
Exchange difference on translation of foreign operations	-	-	12,467	-	12,467
Loss for the period	-	-	-	(4,803,591)	(4,803,591)
Total comprehensive loss for the period	-	-	12,467	(4,803,591)	(4,791,124)
Balance at 30 June 2024	198,568,317	5,863,917	1,295,063	(15,134,429)	190,592,868
Balance at 1 January 2023	40,535,156	4,866,513	221,628	(26,623,894)	18,999,403
Transfer from option reserve to accumulated losses	-	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	38,142,477	-	-	-	38,142,477
Net share-based payments movement	-	874,414	-	-	874,414
Repayment of management/ employee option	15,000	-	-	-	15,000
	38,157,477	874,414	-	-	39,031,891
Exchange difference on translation of foreign operations	-	-	(224,070)	-	(224,070)
Loss for the period	-	-	-	(2,935,011)	(2,935,011)
Total comprehensive loss for the period	-	-	(224,070)	(2,935,011)	(3,159,081)
Balance at 30 June 2023	78,692,633	5,740,927	(2,442)	(29,558,905)	54,872,213

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

Consolidated Statement of Cash Flows

	Note	30 June 2024 \$	30 June 2023 \$
Cash flows from operating activities			
Receipts from customers		21,325,597	15,243,527
Payments to suppliers and employees		(51,588,737)	(20,573,358)
Other incentives received		-	14,938
Other receipts		27,175	15,000
Net cash flows used in operating activities		(30,235,965)	(5,299,893)
Cash flows from investing activities			
Purchase of plant and equipment		(1,496,077)	(657,150)
Interest income on cash deposits		682,462	191,821
Investments in term deposits		(10,063,050)	(30,115,661)
Net cash flows used in investing activities		(10,876,665)	(30,580,990)
Cash flows from financing activities			
Proceeds from share issue		116,954,061	40,256,557
Transaction costs related to share issue		(6,593,821)	(2,247,081)
Interest and other cost of finance paid		(20,356)	(15,651)
Payments for lease liabilities		(123,498)	(319,664)
Repayment of management/employee limited recourse loan		7,830,439	-
Net cash flows from financing activities		118,046,825	37,674,161
Cash and cash equivalents at beginning of the period		56,696,346	10,143,861
Net increase in cash and cash equivalents		76,934,195	1,793,278
Exchange rate adjustments to balances held in foreign currencies		654,392	230,364
Cash and cash equivalents at the end of the period	9	134,284,933	12,167,503

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

Notes to the Financial Statements

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard ("AASB") 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in the annual financial report and should be read in conjunction with the most recent annual financial report (being that for the year ended 31 December 2023), and any public announcements made by the Company during the reporting period.

1. Summary of Significant Accounting Policies

Basis of preparation

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

Going Concern

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

During the half-year ended 30 June 2024, the Group incurred a loss after income tax of \$4,803,591 and net cash outflows from operating activities of \$30,235,965, with cash and term deposits on hand at 30 June 2024 of \$145,540,681. At 30 June 2024, the Group had net assets of \$190,592,868 and an excess of current assets over current liabilities of \$175,611,809.

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

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. No material impact has been noted.

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

Notes to the Financial Statements *continued*

	30 June 2024 \$	30 June 2023 \$
2. Revenue		
Hardware sales	18,390,482	7,683,689
Services revenue	2,259,575	2,769,020
Shipping revenue	889,762	212,294
Subscription revenue	1,281,686	663,464
Warranty revenue	485,687	16,322
Total revenue from sales	23,307,192	11,344,789
Timing of revenue recognition		
At a point in time		
Hardware sales including shipping revenue		
- <i>direct sales</i>	11,998,234	6,436,618
- <i>distributors</i>	7,282,010	1,459,365
Services revenue		
- <i>direct sales</i>	2,252,104	2,758,817
- <i>distributors</i>	7,471	10,203
Over time		
Subscription and warranty revenue		
- <i>direct sales</i>	1,401,102	473,850
- <i>distributors</i>	366,271	205,936
Total revenue from sales	23,307,192	11,344,789
Other revenue		
Interest revenue	682,462	191,821
Sublease revenue	-	10,000
Total other revenue	682,462	201,821
Total revenue	23,989,654	11,546,610
3. Other income		
Awards and incentives income	27,175	14,938
Net foreign exchange gains	67,657	343,953
Total other income	94,832	358,891

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Notes to the Financial Statements *continued*

	30 June 2024 \$	30 June 2023 \$
4. Product development expense		
Consultants	(44,349)	209,028
Other	1,313,236	425,683
Payroll	7,419,382	3,728,589
Travel, accommodation and meals	123,006	70,712
Total product development expense	8,811,275	4,434,012
The credit balance for Consultants is due to a credit note received for an invoice recognised in FY2023.		
5. Sales and customer service expense		
Marketing and advertising	228,808	168,233
Other	810,580	591,522
Payroll	2,752,765	2,349,292
Travel, accommodation and entertainment	380,479	186,892
Total sales and customer service expense	4,172,632	3,295,939
6. Corporate and support expense		
Office costs and communication	935,924	470,437
Payroll	3,211,064	1,447,190
Legal	105,756	185,276
Travel, accommodation and entertainment	24,686	48,747
Professional expenses	1,529,073	805,426
Other	376,210	339,371
Total corporate and support expense	6,182,713	3,296,447
7. Corporate governance expense		
Board and Advisory Board expenses	80,000	103,998
Professional expenses	31,041	32,628
Insurance	294,751	156,695
ASX fees	230,378	122,084
Other	184,559	181,420
Total corporate governance expense	820,729	596,825

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Notes to the Financial Statements *continued*

8. Options issued

During the half-year ended 30 June 2024, a number of options were issued to Directors, management and other employees of the Group. Using the Black-Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January and June 2024.

	Class AF Options	Class AG Options	Class AH Options	Performance Options Note (a)	Total option expense for the period
No of new options	5,850,000	519,000	20,000	45,010,000	
Expiry (years)	3.01	3.01	3.01	4.96	
Exercise price (\$)	0.45	0.76	0.80	0.00	
Vesting period (years)	0.00	0.00	0.00	4.96	
Underlying volatility	54.38%	54.38%	54.38%	n/a	
Risk free interest rate	3.74%	3.71%	3.65%	n/a	
Calculated fair value of each option (\$)	0.1513	0.2298	0.2553	0.0372	
Total expense recorded for the period ended 30 June 2024 (\$)	884,988	119,258	5,106	1,672,668	2,682,020

Note (a): 45,010,000 Performance Options were issued and shall vest and become exercisable into Shares at any time on and from the earlier of the date that the vesting conditions are satisfied.

- 44,160,000 Performance Options are subject to the following vesting conditions being satisfied: DroneShield achieving \$200 million of revenue or customer cash receipts in any rolling twelve-month period from the date of the issue of the Options, or a Change of Control event, and terminates on the expiry date.
- 850,000 Performance Options are subject to the following vesting conditions being satisfied: DroneShield achieving \$50 million of revenue or customer cash receipts in any rolling twelve-month period from the date of the issue of the Options, or a Change of Control event, and terminates on the expiry date.

As there is no exercise price and no near-term expectations of dividends to be paid, the value of the option (excluding the impact of vesting conditions) determined using Black Scholes is equivalent to the spot price of a DroneShield share on the date at which the options were issued. Based on existing orders, management assume that the options will vest within the expiry period.

Notes to the Financial Statements *continued*

	30 June 2024 \$	31 December 2023 \$
9. Cash and cash equivalents		
Cash at bank and on hand	38,433,545	35,866,955
Short-term deposits	95,851,388	20,829,391
Total cash and cash equivalents	134,284,933	56,696,346
10. Trade and other receivables		
Trade receivables	9,321,027	1,970,771
GST receivable	1,165,542	268,167
Deferred revenue		86,070
Prepayments	8,295,561	6,619,496
Other assets	3,740	-
Total trade and other receivables	18,785,870	8,944,504
Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised a provision for expected credit losses because there has not been a significant change in credit quality and the amounts are still considered recoverable.		
<i>Age of receivables that are past due but not impaired.</i>		
>120 days	21,633	37,138
Payment for sublease revenue is due as per the terms specified in the contract.		
11. Inventories		
Raw materials	32,569,112	10,532,696
Finished goods	9,298,285	8,047,022
Total inventories	41,867,397	18,579,718
12. Other investments		
Current		
- Term Deposits	10,138,723	75,000
Non-current		
- Term Deposits	1,117,025	1,117,696
Total other investments	11,255,748	1,192,696

Notes to the Financial Statements *continued*

13. Plant, equipment and intangible assets

	Demonstration equipment	Intangible assets (software)	Office equipment	Development equipment	Tools & equipment	Vehicles and trailers	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 January 2024	854,744	33,873	281,731	390,827	1,434,605	92,038	913,852	4,001,670
Additions	104,413	5,275	396,864	389,129	698,706	-	1,746,336	3,340,723
Depreciation	(388,485)	(8,111)	(109,041)	-	(193,816)	(10,263)	-	(709,716)
Write offs	(3,270)	-	(35,266)	-	-	-	-	(38,536)
Transfer from (to) inventory	956,708	-	-	216,949	-	-	-	1,173,657
Transfer from (to) P&L	(38,506)	-	(5,839)	(70,131)	-	-	-	(114,476)
Transfers between asset categories	-	-	-	(16,314)	16,314	-	-	-
Transfers from (to) other entity	4,742	-	-	-	-	-	-	4,742
Exchange differences	356	-	(37)	-	-	1,480	-	1,799
Balance at 30 June 2024	1,490,702	31,037	528,412	910,460	1,955,809	83,255	2,660,188	7,659,863

	Cost	Accumulated Depreciation	Carrying Value
	\$	\$	\$
Demonstration equipment	2,743,093	(1,252,391)	1,490,702
Intangible asset (software)	55,569	(24,532)	31,037
Office equipment	940,475	(412,063)	528,412
Development equipment	910,460	-	910,460
Tools & equipment	2,239,747	(283,938)	1,955,809
Vehicles and trailers	145,510	(62,255)	83,255
Leasehold improvements	2,660,188	-	2,660,188
Balance at 30 June 2024	9,695,042	(2,035,179)	7,659,863
Demonstration equipment	1,743,733	(888,989)	854,744
Intangible assets (software)	50,293	(16,420)	33,873
Office equipment	585,412	(303,681)	281,731
Development equipment	390,827	-	390,827
Tools & equipment	1,524,727	(90,122)	1,434,605
Vehicles and trailers	143,093	(51,055)	92,038
Leasehold improvements	913,852	-	913,852
Balance at 31 December 2023	5,351,937	(1,350,267)	4,001,670

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Notes to the Financial Statements *continued*

	30 June 2024 \$	31 December 2023 \$
14. Right-of-use assets		
Opening balance	1,925,641	458,956
Additions / Modifications	2,892,481	1,999,541
Depreciation	(150,499)	(532,857)
Closing balance	4,667,623	1,925,640
15. Provisions		
Current		
- Annual leave	843,388	591,580
Non-current		
- Long-service leave	252,310	140,711
Total provisions	1,095,698	732,291
16. Other liabilities		
Accrued expenses	1,349,013	777,223
Deferred revenue		
- Hardware sales including shipping revenue	7,940,840	3,712,448
- Subscription and warranty revenue	11,004,672	10,778,734
- Services revenue	91,314	55,839
Other liabilities	488,698	-
Total other liabilities	20,874,537	15,324,244
An assessment was made on the warranty expenditure incurred to date and whether the recognition of a provision for warranty claim is required. Based on the assessment a warranty provision is not material as at 30 June 2024.		
17. Lease liabilities		
Amounts due for settlement within 12 months	1,246,614	451,435
Amounts due for settlement after 12 months	5,307,638	2,173,969
Total lease liabilities	6,554,252	2,625,404

These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate of 6.07%.

Notes to the Financial Statements *continued*

18. Contributed equity

	No. of shares (Note a)	\$
Opening balances at 1 January 2024	611,453,611	80,377,638
Shares issued following option exercise during period	6,696,143	1,432,528
Share placements (Note b)	125,651,916	100,521,533
Share purchase plan (Note c)	18,748,720	15,000,000
Repayment of limited recourse loan issued to employee	-	7,830,439
Transaction costs in relation to shares issued (Note d)	-	(6,593,821)
Closing balance at 30 June 2024	762,550,390	198,568,317

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

Note b: In April and June 2024, the Company issued, in total, 125,651,916 shares in share placements. The issue price was \$0.80 per share and the total cash received from the placement of shares was \$100,521,533.

Note c: In May 2024, the Company issued 18,748,720 shares in a share purchase plan. The issue price was \$0.80 per share and the total cash received was \$15,000,000.

Note d: Included in transaction costs is corporate advisory, management and selling fees paid to brokers in relation to the April and June 2024 share placements.

19. Shares and options

	Number of Shares	Number of Unlisted Options
Opening balances at 1 January 2024	611,453,611	11,470,000
Share placements	125,651,916	-
Share purchase plan	18,748,720	-
Options exercised during the period	6,696,143	(6,696,143)
Options lapsed during the period	-	(338,857)
Options issued to management and employees	-	51,399,000
Closing balance at 30 June 2024	762,550,390	55,834,000

Unlisted Options

51,399,000 unlisted options were issued to Directors, management and employees during the half-year to 30 June 2024. These Options are subject to various vesting conditions relating to employment with the Company and performance of the Company. See Note 8 for further details.

Notes to the Financial Statements *continued*

20. Earnings (loss) per share

	30 June 2024 \$	30 June 2023 \$
(a) Basic earnings (loss) per share		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.78)	(0.60)
(b) Dilutive earnings per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company (cents per share)	(0.78)	(0.60)
(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	614,953,830	486,526,236

Options

Unlisted Options on issue (refer to Note 19) are not included in the calculation of diluted earnings (loss) per share because they are considered to be antidilutive for the period ended 30 June 2024. These options and shares could potentially dilute basic earnings per share in future periods.

21. Contingent liabilities

As at 30 June 2024 there were no contingent liabilities.

22. Commitments

At 30 June 2024, contractual agreements existed to pay suppliers \$49,730,126 for the manufacturing of inventory. At 31 December 2023 the balance was \$27,563,283.

23. Segment information

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

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.

Notes to the Financial Statements *continued*

23. Segment information continued

The following tables present certain information regarding geographical segments for the half-years ended 30 June 2024 and 30 June 2023.

Segment performance 30 June 2024	USA \$	Australia and Rest of World \$	Elimination \$	Total \$
Hardware sales including shipping revenue				
- direct sales	11,419,951	578,283	-	11,998,234
- distributors	4,223,533	3,058,477	-	7,282,010
Subscription and warranty revenue				
- direct sales	1,155,694	245,408	-	1,401,102
- distributors	174,525	191,746	-	366,271
Services revenue				
- direct sales	34,655	2,217,449	-	2,252,104
- distributors	7471	-	-	7,471
Total revenue from customers	17,015,829	6,291,363	-	23,307,192
Other revenue	3	682,459	-	682,462
Total revenue	17,015,832	6,973,822	-	23,989,654
Other income (losses)	14,938	3,601,253	(3,521,359)	94,832
Depreciation	(169,827)	(690,388)	-	(860,215)
Profit (Loss) after income tax expense	4,669,851	(12,994,801)	3,521,359	(4,803,591)
Assets and liabilities				
Segment assets	28,887,383	263,583,588	(66,853,041)	225,617,930
Segment liabilities	(17,407,749)	(84,470,354)	66,853,041	(35,025,062)
Segment performance 30 June 2023	USA \$	Australia and Rest of World \$	Elimination \$	Total \$
Hardware sales including shipping revenue				
- direct sales	5,604,886	831,732	-	6,436,618
- distributors	198,064	1,261,301	-	1,459,365
Subscription and warranty revenue				
- direct sales	429,896	43,954	-	473,850
- distributors	-	205,936	-	205,936
Services revenue				
- direct sales	91,067	2,667,750	-	2,758,817
- distributors	-	10,203	-	10,203
Total revenue from customers	6,323,913	5,020,876	-	11,344,789
Other revenue	3	201,818	-	201,821
Total revenue	6,323,916	5,222,694	-	11,546,610
Other income (losses)	14,938	343,953	-	358,891
Depreciation	(138,491)	(584,695)	-	(723,186)
Profit (Loss) after income tax expense	3,454,600	(6,389,611)	-	(2,935,011)
Assets and liabilities				
Segment assets	6,825,975	73,620,186	(13,458,233)	66,987,928
Segment liabilities	(3,929,504)	(21,644,444)	13,458,233	(12,115,715)

Notes to the Financial Statements *continued*

24. Events after the reporting date

Subsequent to 30 June 2024, the following occurred;

- 1 August 2024
 - Successful completion of \$120 million underwritten placement.

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Directors' Declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 11 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2024 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Peter James
Independent Non-Executive Chairman

Sydney, NSW
27 August 2024

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

REPORT ON THE HALF-YEAR FINANCIAL REPORT

Conclusion

We have reviewed the half-year financial report of DroneShield Limited ("the Company"), which comprises the consolidated statement of financial position as at 30 June 2024, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2024 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the Directors for the Financial Report

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

HLB Mann Judd

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

HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants

N J Guest
Director

Sydney, NSW
27 August 2024

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