department 13

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Department 13 International Ltd, (D13) is a transformative communication and networking company. D13's MESMER™ is an award-winning software counter drone solution currently available to the global market.

Annual Report FINANCIAL YEAR 2018

Contents

Corporate Information

Department 13 International Ltd
ABN 36 155 396

Directors

Jonathan Hunter
Kathleen Kiernan
Alvin Teller
Philip George
Steve Shattil
Miles Jakeman

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60 Castlereagh Street
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Australia

Chairman's Letter

Dear Shareholders,

I am pleased to present Department 13's 2018 Annual Report. This year the Company delivered significant growth, allowing us to build a platform that is now supporting our acceleration during 2019, as we embark on the next period of growth for D13.

At its core, D13 is a transformative communication and networking company that is focused on delivering software-based solutions. Our key advantage is cutting-edge technical expertise, coupled with a world-renowned IP patent portfolio. This combination of innovation, supported by strong intellectual property protection, has led to the development of an extensive portfolio of deeply valuable patents in the Counter Unmanned Aerial Systems ("Counter-UAS") space and broader communications' industry.

Using this as a framework, D13 now has the opportunity to develop, commercialise and deliver several highly valuable patented solutions into many distinct, but interrelated, verticals. The common thread amongst these opportunities is that they remain underpinned by communication technologies. The first commercialised example of this is MESMER™, our software-based solution in the Counter-UAS industry.

Counter-UAS is a rapidly emerging market. The threat of drones is increasingly apparent. Legislation, funding and expenditure supporting this growth continues to progress. Despite the market growth, we still consider the Counter-UAS market as one that remains in its infancy. In the context of this, D13 has made substantial progress on a number of developments that continue to validate the company's product offering[1]:

- Drone incursions and attacks are becoming increasingly frequent. For example, drone attacks on airports and the assassination attempt on the Head of State in Venezuela;
- Politicians, Law Enforcement and Military bodies are demanding the ability to provide protection, as media and citizens take notice of the immense potential for danger;
- Customers of Counter-UAS (both public and private) are being educated on the differences in Counter-UAS technologies, reaching the understanding that jamming Radio Frequency Signals can pose a greater risk than the drone poses, and that safe control of the device is a necessity.

Meanwhile D13's global opportunity pipeline continues to grow and is supported by some of the most experienced individuals and organizations globally that operate within procurement and implementation of defense and airspace management technologies.

[1] *MESMER™ is currently available internationally, and in the U.S. to Federal Government agencies only.*

D13's progress to-date would not be possible without the ongoing support of our shareholders. FY'18 has seen us deploy units into various different geographies, across three key verticals in defense, critical infrastructure protection, and federal prisons.

We have strengthened our global partnership network and continue to work with our partners, including Raytheon, to drive sales of MESMER™ units.

Importantly, we have made deliberate steps towards evolving D13 into a software-focused business. Our recent and ongoing Memorandum of Understanding and integration programs with Thales and EPE reflect the initial stages of this strategy. Integrating into existing hardware platforms allows D13 to leverage MESMER™'s competitive advantage.

Additional similar initiatives are underway that will allow D13 to move the MESMER™ supply chain in a software-focused direction.

On behalf of the Board and the D13 team I would like to thank all key stakeholders for their continued support.

Yours Faithfully,

Jonathan Hunter

Chairman & Chief Executive Officer

Directors' Report

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as "D13" or the 'Group') consisting of Department 13 International Ltd (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

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

Jonathan Hunter	Chairman, CEO
Kathleen Kiernan	Non-Executive Director
Alvin Teller	Non-Executive Director
Steve Shattil	Executive Director, appointed 12 March 2018
Philip George	Non-Executive Director
Miles Jakeman	Non-Executive Director, appointed 13 August 2018
Tim Davies	Non-Executive Director, resigned 13 August 2018

Chief Executive Officer

Jonathan Hunter

Company Secretary

Kevin Kye	Resigned 24 January 2018
Tharun Kuppanda	Appointed 24 January 2018, resigned 20 August 2018
Laura Newell	Appointed 20 August 2018

Jonathan Hunter

Chief Executive Officer & Executive Chairman

Appointed 18 December 2015

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

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

Dr. Kathleen Kiernan

US Non-Executive Director – Government Relations

Appointed 18 December 2015

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

Dr Kiernan is a 30-year veteran of Federal Law Enforcement. She has previously served as the Assistant Director for the Office of Strategic Intelligence and Information for the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), Member of the Army Science Board, and a Member of the Air Force Strategic Studies Board.

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

Alvin Teller

US Non-Executive Director – Commercial

Appointed 18 December 2015

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

Mr Teller graduated from Columbia University with a BS in Electronics Engineering and an MS in Operations Research and went on to earn an MBA from Harvard Business School.

Philip George

Non-Executive Director

Appointed 18 December 2015

Mr George has experience as a managing director and operations manager with a strong background in cyber security and IT networking. He has previously worked as a general manager, technical director, global IT manager, team lead, and IT manager. For the last 11 years, Mr George primarily serviced the Finance, Oil & Gas, Start-up & Mining and Petrochemical industries. Mr George is the former Operations Manager for Uber Australia.

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

Steve Shattil

Executive Director

Appointed 12 March 2018

Steve is D13's Chief Scientist Officer and leads the Company's Patent Strategy. Steve holds graduate degrees in Physics and Electrical Engineering and is a practicing patent agent.

Steve has developed technologies that are essential to wireless and cellular standards, with his most important innovations centering around next-generation 5G wireless communications. Steve is the inventor of 50 US-based patents and dozens of international patents. He has played a critical role in shaping the D13 business to date.

Dr. Miles Jakeman

Non-Executive Director

Appointed 13 August 2018

Dr Miles Jakeman is a proven Director and leader. With 30 years of industry experience and 17 years as a Director on multiple boards, he holds considerable expertise in business strategy, leadership, high-performance team development, and risk management. His knowledge is rooted in providing guidance for technology and software companies that are undergoing phases of rapid expansion and dealing with both Government and private sector clients.

Miles is currently the Chairman of GetBusy (AIM:GetB), a provider of highly secure digital document distribution software. He is also Deputy Chairman of The Citadel Group (ASX:CGL), which specialises in tailored advisory, implementation and managed services across the information management, security and healthcare sectors. He was the Managing Director between 2007 and 2016.

Miles holds a Bachelor of Science (Hons), a Graduate Diploma in Asian Studies, a Doctorate of Philosophy (PhD) in Asian Studies, and a second PhD in Business Leadership. He is an active member of the Australian Institute of Company Directors (AICD).

Timothy Davies

Non-Executive Director

Appointed 4 May 2017

Resigned 13 August 2018

Mr Davies is an experienced Chief Executive Officer with a demonstrated history of working in the global finance and investment industry. Tim has worked for high profile groups including Goldman Sachs and Consolidated Press Holdings.

Tim was Chief Investment Officer for Caledonia Asia from 2010 to 2012 and prior to that role, he established the China office of Ellerston Capital as Senior Portfolio Manager of China Investments.

Meeting of Directors

	Meetings	
Director	Eligible to Attend	Attended
Jonathan Hunter	11	11
Kathleen Kiernan	11	11
Al Teller	11	11
Philip George	11	11
Timothy Davies	3	3
Steve Shattil	2	1
Miles Jakeman	-	-

Review of Operations and Financial Results

Revenue increased 147% to $2,714,468. The net loss after tax for the year was $7,248,664 (2017 loss: $6,221,243).

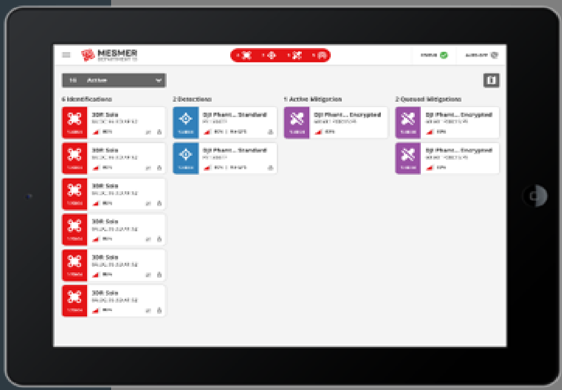
Principal Activities & Strategy

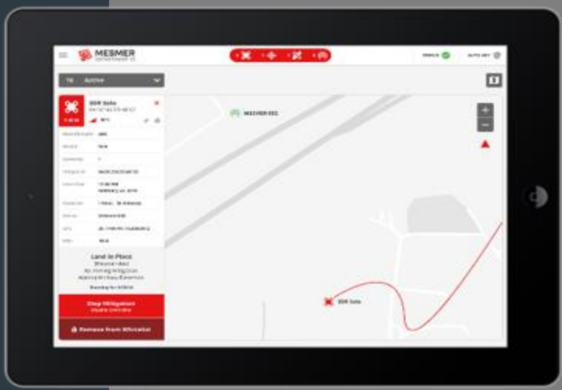
Department 13 (D13) was founded in Virginia in 2010, by a team of former military operators, scientists and engineers. This team apply proprietary innovative advanced technology to emerging requirements. D13 is developing cutting-edge software and communication systems that have the potential to transform the networking and communication fields, as well as current applications in drone defence, mobile phone IT security, and secure enhanced Android phone systems.

D13 is engaged with multiple counter-UAS projects to provide strategic solutions for civil, military and commercial security requirements. D13's first commercialized product, the MESMER™ Counter Drone System, is a unique patented, low-power, non-jamming, non-line-of-sight, non-kinetic drone mitigation solution. MESMER™ enables an effective and safe method of protecting personnel and infrastructure from drones.

D13 has a substantial intellectual property portfolio that underpins the development of wireless protocol manipulation and communication networking software. D13's portfolio has applications in drone defence, local area and wide area cellular communications and networking, enhanced data bandwidth for all digital communications, cyber security for mobile devices, and sophisticated RF technology applications (radiometrics).

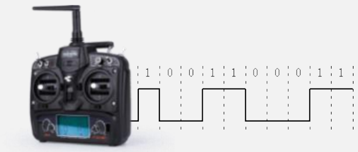
After 7 years, D13 has commercialised MESMER™, its first core technology. MESMER™ is a counter-drone product that detects, identifies and mitigates drones. MESMER™ is a non-jamming, non-kinetic Counter-UAS technology. Using a combination of Radio Frequency detection and protocol manipulation, MESMER™ can automatically identify, control and land a drone within a +4km radius. MESMER™ is the only commercialized technology that uses protocol manipulation to safely control drones. MESMER's™ ability to safely control a drone is imperative in most situations and delivers a substantial competitive advantage.





Detection

Detect unwanted commercial drones flying within a 4km radius



Identification

Identify the type of drone and determine whether or not it is a threat

Mitigation

Provide a variety of control mitigation options, including ‘return to home’, ‘land in place’ and/or ‘land in predetermined safe zone’

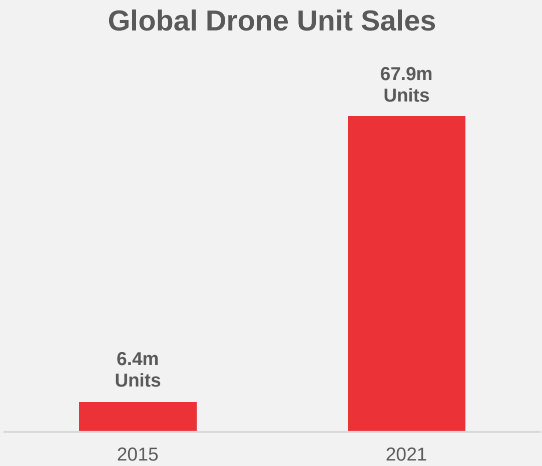
During the 2018 calendar year, D13 achieved numerous milestones, including:

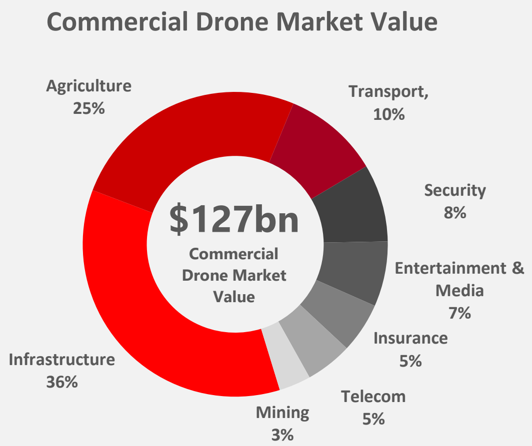
Appoint Manufacturer (Jul-Aug 17)	D13 appointed Core Source Technologies, a local Maryland firm, to be the key manufacturing partner for the MESMER™ system. Core Source has the necessary capabilities and capacity to meet any requirement. All tooling and production planning was completed during the June Quarter for the MESMER™ product.
Upgrade to MESMER™ v1.5 (Aug 17)	D13’s product development team successfully upgraded the MESMER™ v1.5 system platform. Key features included an advance in total drone detection range (up to 400% compared to MESMER™ v1.0), expanded operational frequencies (433MHz, 915MHz, 2.4GHz, and 5.8GHz), and a new single unit form factor. The new form factor allows for easier deployment of MESMER™ in fixed-site, vehicle, and man-portable applications.
New Patent (Sept 17)	D13 was issued U.S. Patent No. 9,768,842, titled “Pre-Coding in Multi-User MIMO.” The patent is exclusively licensed under D13’s license agreement with GenghisComm Holdings . It covers signal coding that dramatically reduces radio transmitter power consumption and cost. The technology has enabled a new generation of cellular networks. Fleets of drones will now be capable of replacing a network of cell towers, or supporting existing networks when communications are knocked out. The technology can also substantially increase the battery life of phones, computers, drones and cameras, providing significant IP licensing opportunities for D13.
New Patent (Oct 17)	D13 was issued U.S. Patent No. 9,774,505, titled “Content delivery in wireless wide area networks,” under D13’s license agreement with GenghisComm Holdings. The patent covers technology that will further enhance D13’s drone defence capabilities and advanced communication networking. In particular, this technology addressed a key component in D13’s Counter Drone Defence Solution for managing large sensor arrays that are used to detect and track drones, as well as D13’s strategic networking solutions products.
New Patent (Oct 17)	D13 was issued U.S. Patent No. 9,800,448, titled “Spreading and Pre-Coding in OFDM.” The patent was licensed exclusively to D13 and assigned to GenghisComm Holdings. The patent covers signal coding that dramatically reduces power consumption and cost in radio transmitters. This technology significantly increases the battery life of phones, computers, drones and cameras, providing D13 with significant IP licensing opportunities.
New Patent (Oct 17)	D13 was issued U.S. Patent No. 9,798,329, titled “Airborne Relays and CMIMO.” The patent was licensed exclusively to D13 and assigned to GenghisComm Holdings, the IP holding company of D13’s Chief Science Officer Steve Shattil. This patent will enhance D13’s drone defence capabilities and advanced communication networking by combining several D13 innovations to provide an airborne radio network.
New Partnership (Oct 17)	October 2018 marked the commencement of a direct working partnership with the University of Michigan-Dearborn (“UM-Dearborn”), which is widely renowned for its commitment to translational research and applied education. D13 and UM-Dearborn will work collaboratively to develop additional Counter-UAS capabilities. The project’s focus is centred upon enhancing sensor equipment and solutions to be incorporated within the MESMER™ solution.
First Sales to Latin American Prison Operator (Oct 17)	D13 received a purchase order for the sale of two MESMER™ v1.5 units for the Latin American Federal Prison System. The use of MESMER™ as a solution to protect airspace over prisons represents a key global market for D13.

Appointment of New CFO (Oct 17)	Sundeep Patel was appointed as the Company's Chief Financial Officer (CFO), effective October 2017. With a depth of experience in corporate finance, Mr. Patel has built an impressive track record of implementing accounting, financial and operational controls, and completing company restructures. He has also assessed and employed flexible working capital facilities across companies of varied sizes and industries. Mr. Patel received an M.B.A. from Georgetown University's McDonough School of Business, and a B.S. in Finance from Rutgers University.
India Based Distribution Agreement (Oct 17)	An exclusive distribution agreement was signed with Shastra Corporation, a leading distributor of defence systems in India. Shastra is based in the US and has a core focus on providing the latest proven technologies into India. Shastra's India-based operations are in New Delhi, the epicentre of India's military and paramilitary headquarters. Shastra's team is comprised of senior retired Army and Navy personnel, along with several engineers who specialize in electronics and ballistics.
Japan Based Distribution Agreement (Dec 17)	An exclusive distribution agreement was signed with Nippon Kaiyo ("Nippon"), a preeminent Japanese technology and equipment distributor. Based in Tokyo, Nippon's principal focus is on providing highly complex technical equipment to a range of key Japanese industries and geographical markets. Nippon's suite of products spans autonomously controlled vehicles, underwater tracking systems and detection and monitoring equipment. Nippon's expertise in facilitating the sale of highly technical equipment to private and public institutions makes it an ideal partner for D13 and the MESMER™ product.
Teaming with Raytheon (Jan 18)	The Group entered into a teaming agreement with Raytheon Company (NYSE: RTN), a leading technology supplier to global defence organizations. D13 and Raytheon are working together to market and support existing counter-drone technologies and to co-develop new capabilities. D13 and Raytheon are also working cooperatively to deliver on sales opportunities for MESMER™.
Convertible Note Issuance (Mar 18)	Issuance of $7,000,000 secured convertible notes to professional and sophisticated investors, corner-stoned by Acorn Capital Limited, with a following $5,000,000 notes issued post the 2018 balance date.
New Patent (Mar 18)	D13 acquired the "Carrier Interferometry" (CI) Patent Portfolio for US $1.5m. The CI Patent Portfolio contains early disclosures (2002) of software-defined radios and advanced digital signal processing. The radios and signal processing are used with detection, signal separation, and identification, all of which are key technologies that D13 is using for drone detection and mitigation. The acquired CI portfolio enables D13 to implement spectral partitioning, blind signal analysis, and distributed software analysis technology into MESMER™ and future-MESMER™ systems. The acquisition will enable D13 to make broad patent claims that will be key to the Counter-UAS market, and which will cover almost all future Counter-UAS products.
Exclusive South Korea Based Distribution Agreement (May 18)	An exclusive distribution agreement was signed with Korea Counter Terrorism Solutions ("KCTS"), a leading distributor of defence and counter terrorism solutions that is based in Seoul, South Korea. KCTS has a core focus on providing differentiated solutions and systems that are designed to protect national security and public safety. KCTS has developed a suite of products comprising radiation detectors, anti-drones, radioactive decontamination, exposure medicine, cyber terror hacking defence, ransomware defence, bulletproof glass, and meteorological fields.
Third place in ThunderDrone RPE (Jun 18)	D13 was awarded 3rd place in ThunderDrone RPE III, from a field of 450 competing technologies and vendors. The ThunderDrone trials were initiated by SOFWERX upon request of the US Special Operations Command and Strategic Capabilities Office. The trials assessed the Unmanned Aerial Systems industry and the leading UAS technologies. Phase 3 was held at Nellis Air Force Base, in Nevada, on the 18th of June 2018. MESMER™ competed against 4 other counter-UAS technologies that had been shortlisted from over 450 submissions. The two technologies that placed ahead of MESMER™ were solutions that consisted of multiple technologies from multiple companies that worked cooperatively. D13 competed on a standalone basis and was the only technology that utilized protocol manipulation (non-jamming) to actively mitigate drones. A cash prize of US$100,000 was awarded to D13. More importantly, ThunderDrone provided another opportunity for D13 to demonstrate MESMER™'s capabilities to an array of potential customers.
First Repeat Purchase Order (Jun 18)	D13 received a purchase order for an additional two MESMER™ v1.5 units from EPE, D13's strategic partner in the Australasian region. This was the first repeat order from EPE. EPE purchased one MESMER™ unit to meet ongoing demands for demonstrations in the region. The other unit was sold to an end customer whose identity is confidential.

Drone and Autonomous Systems Overview

A drone is an unmanned craft that can sense and navigate its environment without human control. However, this definition has recently been expanded to include remote-controlled devices, such as commercial radio-controlled, unmanned aerial vehicles (UAVs). Much like other commercial electronics, drones have become increasingly popular, smaller in size and more affordable.





Source: FAA, Gartner 2017, Tratica, Statista & PwC

Drones are currently employed across almost all sectors and are used by millions of amateur hobbyists. Drones can currently execute complex tasks and missions, from delivering cargo, performing search-and-rescue missions, performing mapping, and even planting crops. It is now undeniable that drones will increasingly become a key component of developing commerce and everyday life. Drones will realize substantial efficiency improvements which will be paralleled by widescale danger.

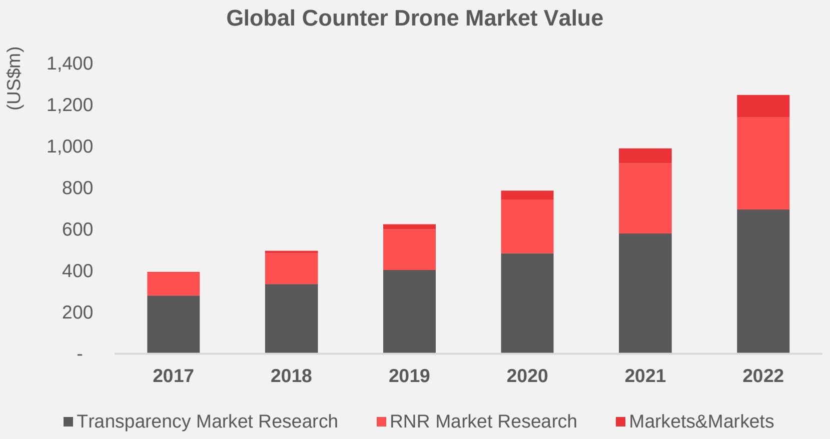
The Growth of Drones & Their Dangers

Evidence of the dangers posed by drones is being reported daily. Drones are unwittingly causing disruption and, in many cases, threatening lives when flown by inexperienced pilots. Drones are also being deliberately transformed into carriers of weapons, explosives and poisons, and are then used to attack strategic targets. Indeed, drones are the new remote-control weapon of terrorism. The widely reported attack on Abu Dhabi Airport by Yemeni rebels in July 2018, and on Venezuelan President Nicolás Maduro in August 2018, were just two of numerous drone attacks that occur globally.

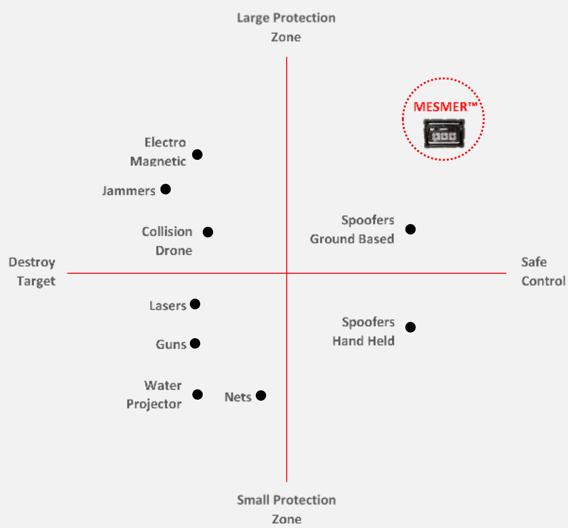
All novel transformative technologies, including electricity, telephones, cars, and the Internet, require substantial investment in supporting infrastructure. **In the case of drones, Counter-UAS technology is the infrastructure. D13's MESMER™ technology is well placed to be a substantial component of both control and management solutions for drones.**

Counter-UAS

The market for Counter-UAS products continues to develop and is forecast to continue to grow. The market is comprised of multiple technologies that service a variety of threat profiles and targets. D13 is now strategically positioned to capitalize upon this growth.



MESMER™ software is dependent upon D13's technicians and engineers who identify and record the unique radio frequency signatures that drones use to communicate with their controller. The signatures are collected in a MESMER™ library. The library is continuously updated with new signatures to provide protection against both newly released drones and older drones. MESMER™ is only effective against drones that are catalogued in the MESMER™ library. MESMER™ software has the capability of being integrated with other forms of mitigation, which means that it can provide the outer layer of a drone defence strategy. As the outer layer, MESMER™ can then alternatively trigger other technologies (jamming or kinetic) as a last line of defence.



MESMER™ hardware includes:

- A high-performance commercial general-purpose computer, with all necessary networking interfaces running MESMER™ software
- Rackmount packaged, commercially available software defined radios (SDR) and RF front end
- Tablet / Mobile / Desktop operator console
- Omnidirectional antennas and RF cabling
- A ruggedized environmental closure

Sales & Distribution Network

D13 has an extensive pipeline of more than 100 individual opportunities.

Distribution Partnerships

One of D13's key strategies is to demonstrate, in person, MESMER™'s capabilities to the client. An initial demonstration is typically conducted at D13's Headquarters in Maryland or in the region with our distribution partner. In addition, the key pathway to US Military and Protective Services clientele is through various trials. D13 has achieved a substantial degree of success during these trials.

D13 Sales Process

Inquiry	Demonstration	Requirements	Initial Order	Repeat Order
Take inquiry and conducts initial analysis on the client	Undertake demonstration of MESMER™ at D13 head office	Review client requirements and due dilligence on client undertaken at head office or client's location	Provide customised hardware and software solution	Provide multiple MESMER™ units for customer use

The D13 sales process varies in duration and is dependent on a client's individual circumstances. Government contracts typically take longer to complete, whereas private entities generally result in a shorter conversion time. D13 is tracking multiple opportunities of varying sizes with both private and public-sector clients that are expected to result in MESMER™ purchase orders.

Legislation

State and Federal laws that govern drones and the control of drones continue to evolve. Legislation is typically reactive, but lobbyists are pursuing change in many jurisdictions. The Trump Administration is now pursuing fundamental changes to how various Government agencies may identify, intercept and control threatening drones.

D13 is playing an active role in assisting multiple governments to effect legislative change that allows for Counter-UAS technologies to be more widely adopted. As regulations continue to evolve, we expect the Counter-UAS market to broaden, and therefore increase the potential customer-base for MESMER™.

Intellectual Property Portfolio

D13's intellectual property portfolio remains the most advanced and comprehensive portfolio within the Counter-UAS industry. D13's patents extend to technology in multiple adjacent fields with near term commercialization opportunities in the verticals of 5G Communication Networking and Automated Vehicle System Control.

MESMER™ Technologies	MESMER™ is supported by additional patented and patent-pending technologies, which include: **1.** Distributed antenna systems that bring massive increases to data bandwidth, radio performance, coverage, and power efficiency. **2.** Efficient network protocols that improve the speed and quality of streaming data for both content delivery networks and wireless networks. **3.** Cloud network architectures for radio and sensor networks. **4.** Secure communications that are difficult to detect and intercept. **5.** Advanced network security that is modelled after the human body's immunological response. **6.** Signal warfare that is based on some of the previously described technologies for observing and manipulating enemy communications.
C-MIMO	In wireless networks, Cooperative MIMO can increase data bandwidth at least 1000-fold and is a gamechanger for cellular and Wi-Fi markets. It is a Cloud-based computing system combined with a distributed sensor network. It enables novel capabilities that enhance Counter-UAS, such as highly localised electronic countermeasures against targets and effective responses to UAS swarms.
SC-FDMA	SC-FDMA reduces the power consumption of RF power amplifiers that are used to transmit broadband downlink data. This is vital for extending the life of battery-powered devices. SC-FDMA offers substantial power savings for camera drones, potentially doubling their battery's life, such as battery-powered sensors that are used with distributed Counter-UAS.
C-RAN	C-RAN will provide an efficient framework for AI in future Counter-UAS because it efficiently partitions signal processing operations between the network edge and the core network. This optimises processing and bandwidth resources. Aspects of C-RAN are being implemented in D13's current Counter-UAS development.
Airborne Relays	Highly mobile airborne platforms provide a distributed sensor network that extends the range for Counter-UAV detection and mitigation. Airborne relays cooperatively navigate to enhance radio-processing objectives, such as detecting a target UAV, performing electronic countermeasures, or quickly deploying a wireless data network with optimal capacity and link quality. Swarm-based algorithms that employ D13's patented multi-objective optimisation algorithms will exploit the mobility of aerial platforms to solve complex problems as efficiently as possible.
UAV Intrusion Detection & Countermeasures	These patents describe techniques for adapting to threat detection and mitigation, and the use of unknown radio protocols. If a signal can't be identified, its features are used to develop effective electronic countermeasures. The system monitors the effectiveness of each countermeasure, so that it can learn and evolve as new threats are encountered.
Distributed Software-Defined Radio (SDR)	The bottleneck for efficient processing in Counter-UAS/IoT is the network between the sensors and the central processor. A distributed software defined radio (SDR) performs a portion of the physical-layer processing at the sensor. This greatly reduces the amount of data that is transmitted to the central processor.
CSC	As proven by MIT and Caltech, CSC is the most efficient form of Linear Network Coding. It improves network efficiency between the sensors and the central processor. Published results show a 5- to 20-fold increase in data bandwidth. CSC also facilitates Cloud storage and channel bonding.
Tactical Network Dominance	These patents broadly cover detecting, analysing, and identifying radio networks that are employed by hostile entities. It is followed by a tactical response that exploits detected vulnerabilities in an enemy's radio network as part of a systems infiltration strategy.

Included below is an independent report analyzing D13's patent portfolio, prepared by Watermark Intellectual Property Pty Ltd.

25 September 2018

The Directors
Department 13 International Limited
7021 Columbia Gateway Drive
Suite 175
Columbia MD 21046
United States of America

Dear Sirs,

We are pleased to present this analysis of the patent portfolio of Department 13 Inc (D13). This report provides top level commentary on the characteristics of the portfolio directed at assisting stakeholders to understand the legal, commercial and technology landscape in which the company operates, and the value and contribution of the portfolio to the company's market position.

Included within the analysis are patents of Department 13 Inc, GenghisComm LLC to which D13 has an exclusive licence, and the recently acquired Carrier Interferometry ('CI') portfolio.

The report has been developed using proprietary patent analytics tools which derive the images presented by mining and analysis of:

- data (bibliographic and status details of the patents and applications in the portfolio) and
- text using algorithms utilising declension, semantic proximity, citation analysis, statistical analysis of key word recurrence and patent classification tools.

Commentary has been provided by a Registered Patent Attorney.

We are pleased to have been of assistance.

Yours faithfully

Karen Sinclair FIPTA MAICD

BSc (Chem/Micro)

Principal

Registered Patent & Trade Marks Attorney

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Watermark Intellectual Property Pty Ltd

Our Services
- Patents & Designs
- Trade Marks
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- IP Advisory

Competitive Business Intelligence

Our Offices
Victoria
New South Wales
Western Australia

COMPETE
WITH CONFIDENCE.

1. Geographic spread of live D13 patents and patent applications

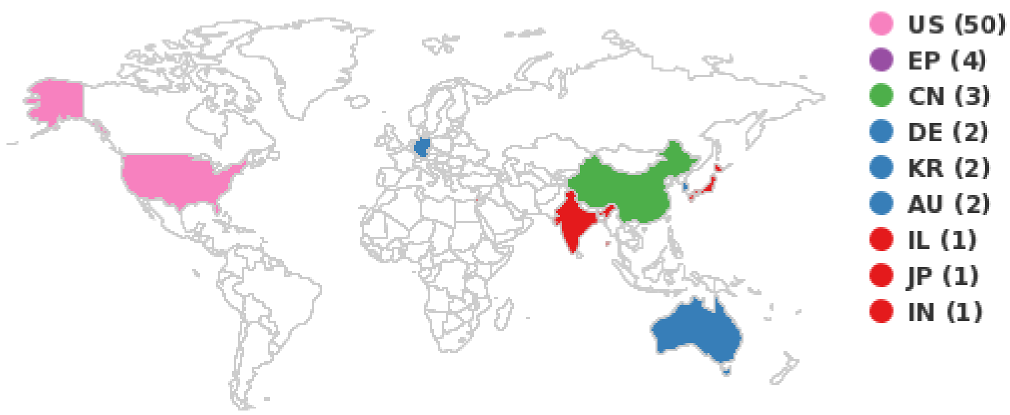


Figure 1. Ceased and/or abandoned patents and applications are excluded. 71% of the portfolio is filed in the US. Certain patents and applications are also filed in Europe, Australia and in Asian countries including China, South Korea, Japan and India.

The total number of live granted patents is 49. The total number of pending (live) patent applications is 17.

Six patent families are currently in existence:

- **Patent Family 1**: Distributed wireless communications for tactical network dominance
- **Patent Family 2**: Unmanned aerial vehicle intrusion detection and countermeasures
- **Patent Family 3**: Cooperative intrusion device
- **Patent Family 4**: Airborne relays in co-operative –MIMO systems
- **Patent Family 5**: Spreading and precoding in OFDM
- **Patent Family 6**: Transmitting and receiving signals having a carrier interferometry architecture

A patent family is a collection of patents and patent applications covering the same or similar technical content disclosed by a common inventor and protected in one or more countries. Patent families are defined by databases, not by national or international laws, and family members for a particular invention can vary from database to database. The patents and applications in a family are directly or indirectly related to each other through their priority claims. A priority claim is the date on which a patent application having certain subject matter has been filed. A patent family may include more than one invention. One invention may be embodied in a number of different products which in turn may be commercialized in multiple channels or applications.

2. Patent strength

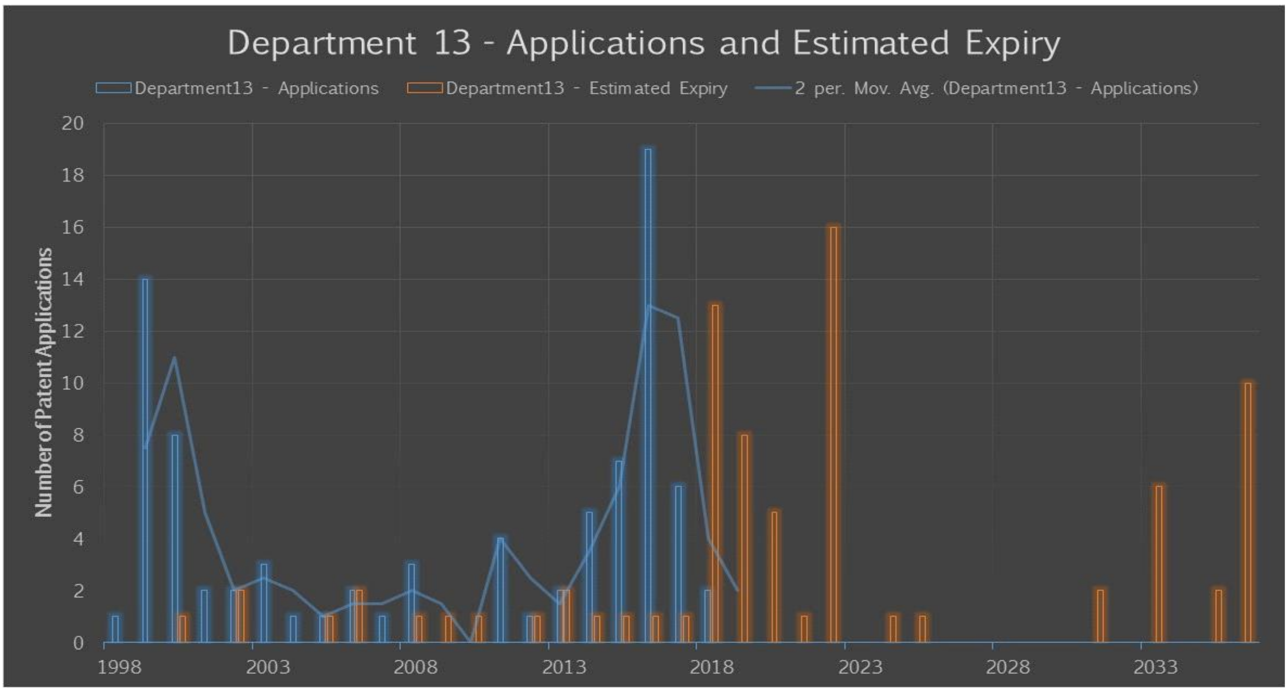


Figure 2. Portfolio vitality and staying power can be measured from trends in filing over time. All patents have a defined term of 20 years, generally measured from their filing date. Best practice in patent lifecycle management includes both elongating technology protection by new filings (staying power) and broadening protection through related filings (vitality). Reflecting the extensive portfolio associated with Patent Family 5, D13 patent activity reached an early peak in 1999-2000. A number of these patents (43) will expire by 2023. In recognition of this the aging portfolio has been subject of a renewed effort commencing in 2016. The most recently filed patents will have an estimated expiry date in 2036. Patent filing rates can be a proxy for investment in R&D (internal or by acquisition).

3. Patent strength

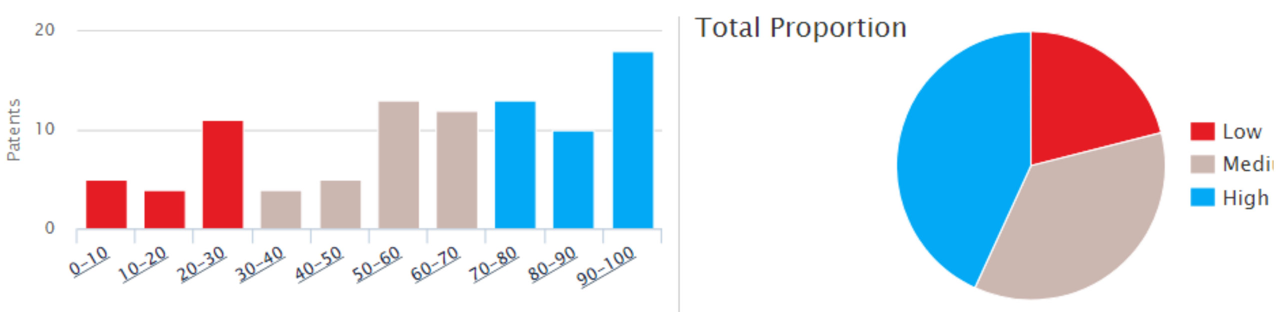


Figure 3. Patent strength in a measure of the relative merit of a patent. The proprietary algorithm utilized in this image is based on (1) claims, in particular, the number of granted claims; (2) the number of citing patents, that is the number of subsequently filed patent applications by any party which make reference to the patent in question, (3) litigation – strong patents are often involved in patent litigation, and (4) whether or not the patent has expired. The higher the score, the stronger the patent. 41% of D13's patent portfolio is measured as being of high strength patents, 34% of medium strength patents and 20% of low strength patents.

4. Impact and breakthrough quality

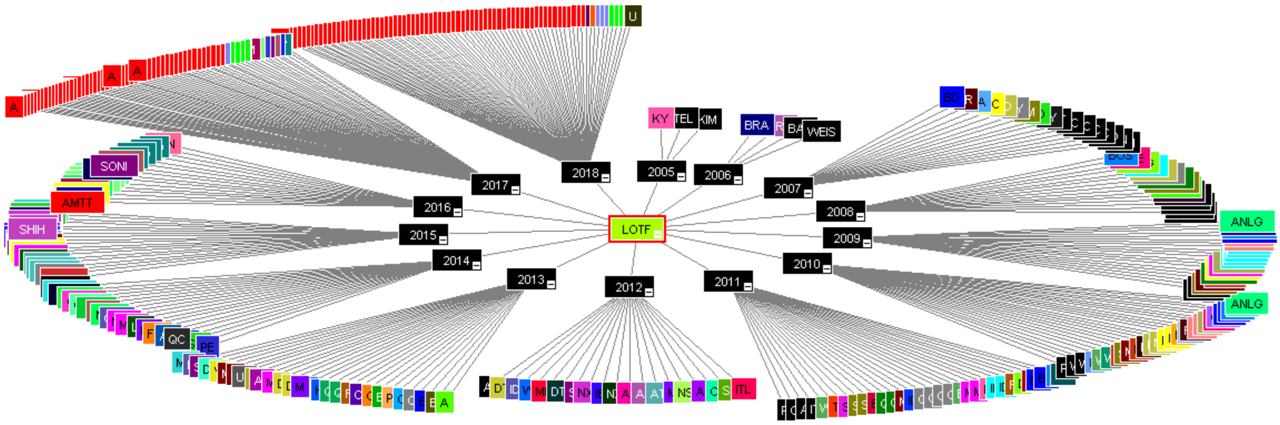
Figure 4. Impact and break through quality is reflected in the amount of citation of a patent by others in the field. More recently filed patents and patent applications will be cited less frequently than older patents. It is generally possible to say that the more a patent is cited, the more impactful it is. Older patents which continue to be cited are most impactful. Citation maps can be a proxy for measuring the legal freedom of the patentee to exploit their patented technology, but also the potential for deriving revenue streams through licensing arrangements with parties having follow on technologies, and by corollary, the potential as an acquirer of the patent under examination.

A citation map is a graphical representation showing the citation relationships between one patent document and another using visualization tools and techniques.

The following maps demonstrate that D13 has patent protection for impactful technology.

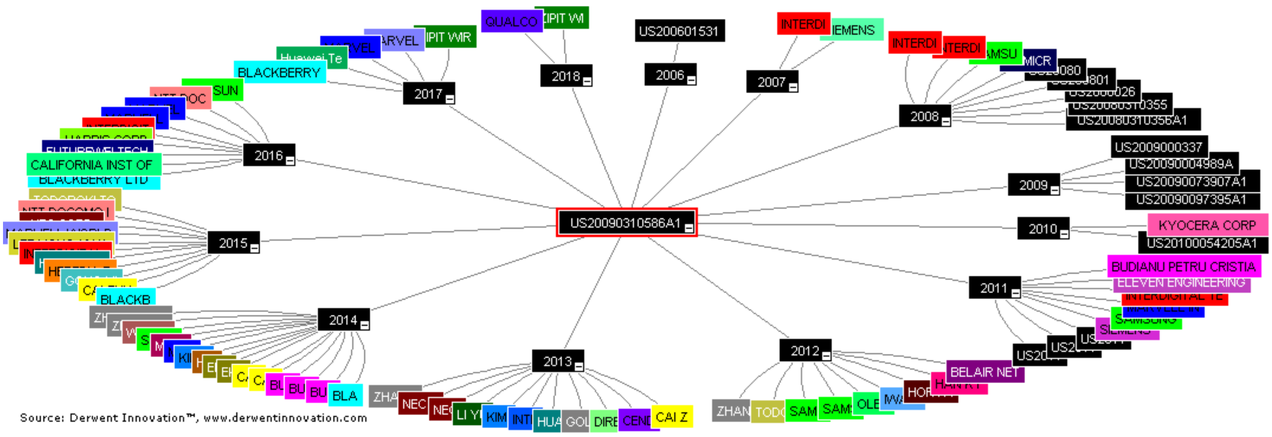
In each map, the patent at the core of image is owned or controlled by D13. The year of publication of the citation is indicated in the inner hub. Each spoke represents the citation in that year of the D13 patent at the core. Each party citing the core patent (as well as the core patentee) is indicated by a different colour. The significance of the core patent to any other party citing it may be measured by the number of times that other party cites it in follow on patents.

(a) US7430257 (filed 2002) – Patent Family Six



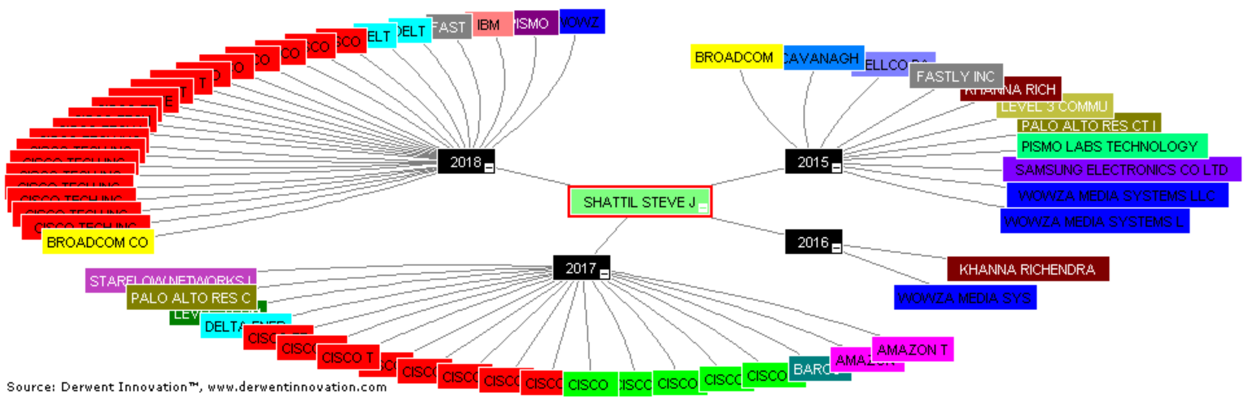
(red)	AT & T IP I LP	118	(magenta)	MARVELL INT LTD	7
(green)	GENGHISCOMM HOLDINGS LLC	9	(yellow)	MICRON TECHNOLOGY INC	7
(blue)	BROADCOM CORP	8	(grey)	NOKIA CORP	6
(cyan)	INTERDIGITAL TECH CORP	8	(dark red)	PANASONIC CORP	5

(b) US8750264 (filed 2009) – Patent Family Four



INTERDIGITAL TECH CORP	6	(red)
SAMSUNG ELECTRONICS CO LTD	6	(green)
MARVELL INT LTD	5	(blue)
BLACKBERRY LTD	4	(cyan)
BUDIANU PETRU CRISTIAN	4	(magenta)
CAI ZHIJUN	4	(yellow)
ZHANG HONGYUAN	4	(grey)
NEC CORP	3	(dark red)
EKBAL AMAL	2	(olive)
HUAWEI TECH CO LTD	2	(teal)
KIM JUN SUK	2	(light blue)

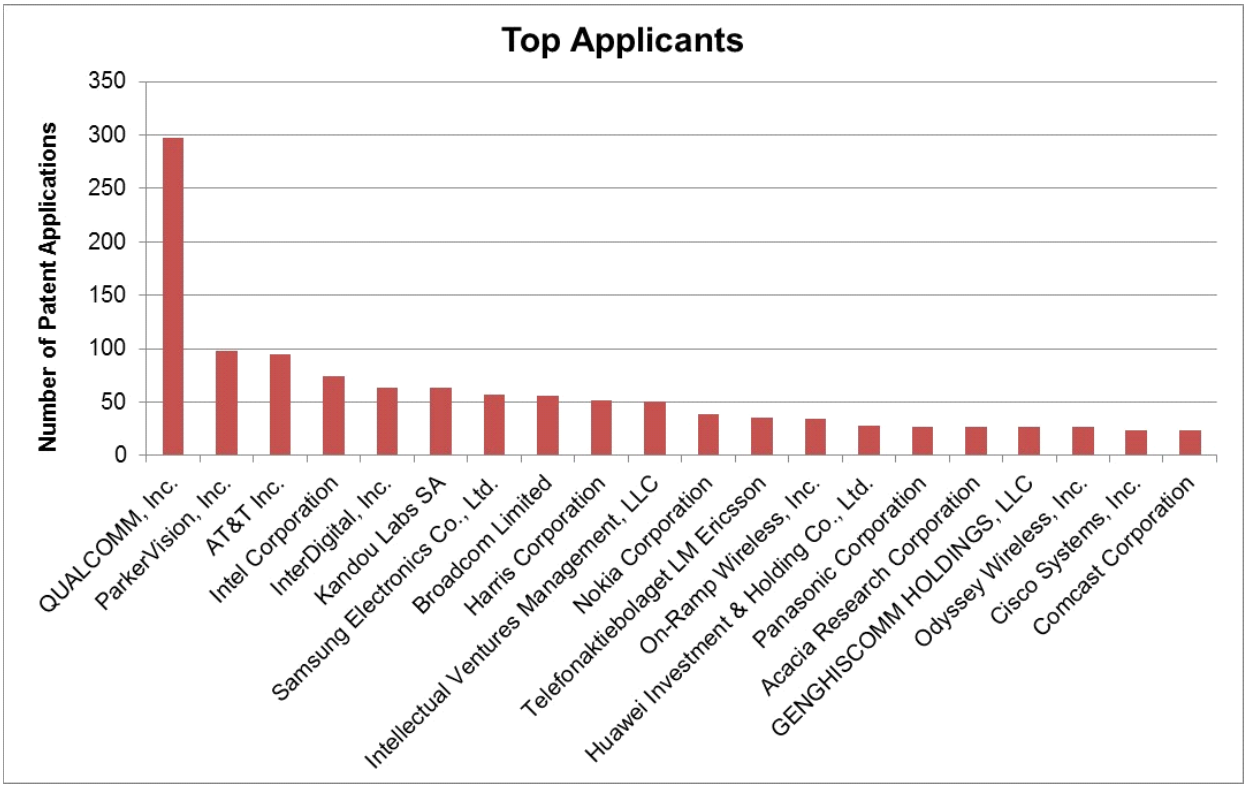
(c) US9325805 (filed 2012) - Patent Family Five



CISCO TECH INC	28	(red)
CISCO SYSTEMS INC	5	(green)
WOWZA MEDIA SYSTEMS LLC	4	(blue)
DELTA ENERGY & COMMUNICATIONS INC	3	(cyan)
AMAZON TECH INC	2	(magenta)
BROADCOM CORP	2	(yellow)
FASTLY INC	2	(grey)
KHANNA RICHENDRA	2	(dark red)

5. Parties citing D13 Patents

(a)



(b)

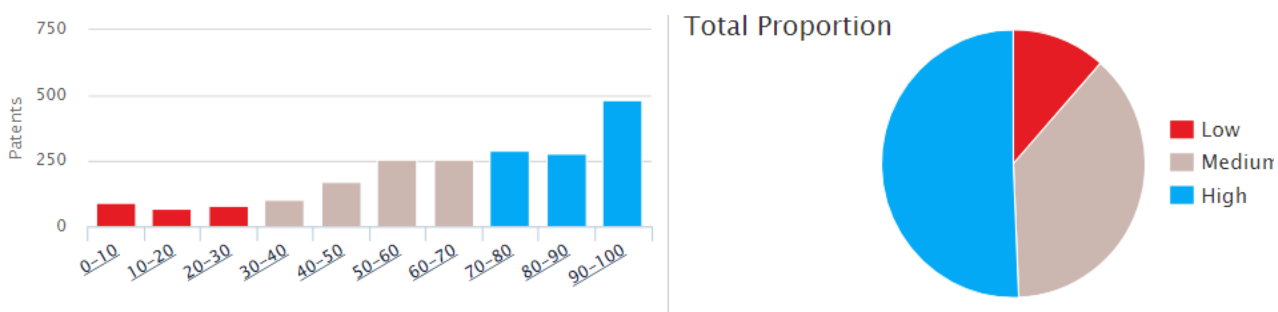


Figure 5. Following on from Figure 4, any party citing a D13 patent document is mapped (a), and the collective strength (b) of those follow-on patents is measured using the algorithms described in Figure 3.

The high patent strength index of follow on patents indicates that the quality of patents citing D13 families is relatively high, supporting the proposition that D13 patents are placed within a highly technical and valuable technology area.

6. Patent Landscape Map 1 – Patents citing D13

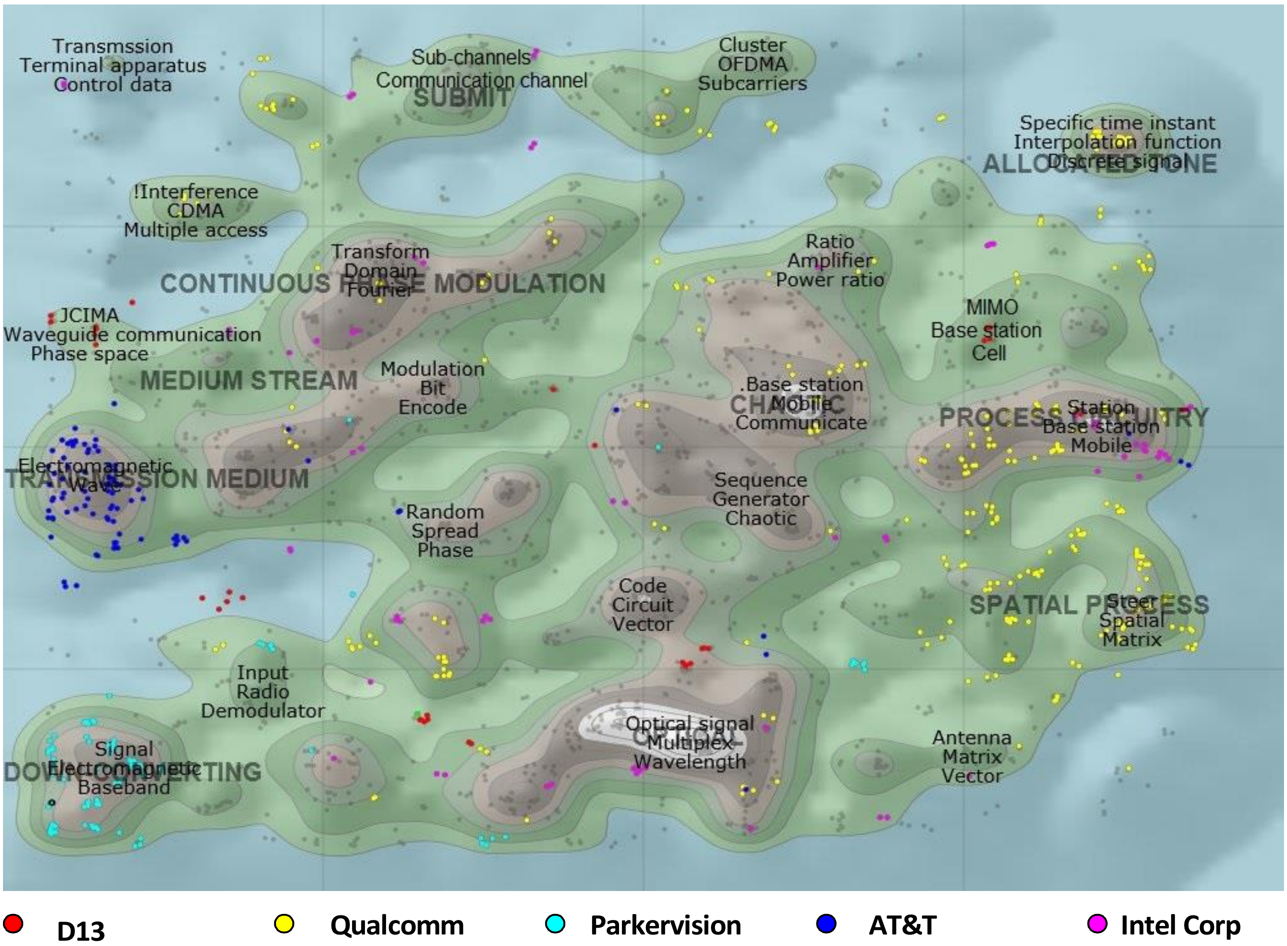


Figure 6. The map groups patents based on relative proximity of keywords. Patents with similar content form peaks on the map. Each peak contains a dark label indicating its content. The height of a peak represents the density of patents. The distance between the peaks indicates their relationship (i.e. the closer the peaks, the more similar their content). Grey labels represent broader topics. If patents are proxies for economic value, then peaks represent technology regions of most economic interest.

Conversely, Blue Ocean Strategy (*Kim and Mauborgne, 2004, INSEAD*) argues that companies can succeed by creating "blue oceans" of uncontested market space, as opposed to "red oceans" where competitors fight for dominance. Such strategic moves create a leap in value for the company, its buyers, and its employees while unlocking new demand and making the competition irrelevant. Patents in the 'blue ocean' represent opportunities in such uncontested market space.

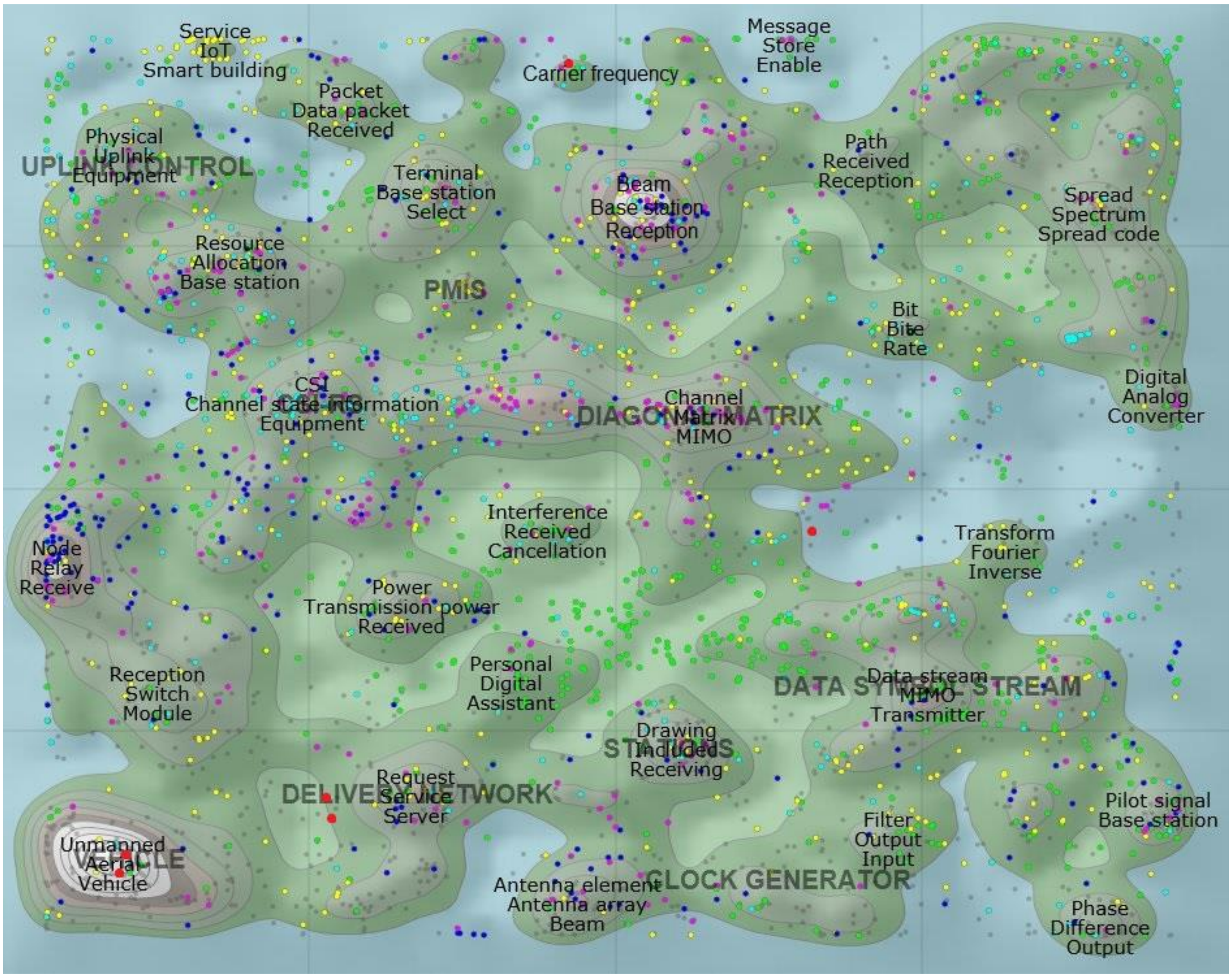
D13 patents and the top 4 parties of Figure 5 have been plotted on the map, showing where R & D resources are concentrated.

D13 patents are generally located in areas of low patent activity:

- **Group 1**: Patent Family 5 (US9628231),
- **Group 2**: Patent Family 3 (US20170142135),
- **Group 3**: Patent Family 2 (US10051475),
- **Group 4**: Patent Family 5 (US9936514, US9844061)
- **Group 5**: Patent Family 5 (US 8670390)

The exception to this is parts of Patent Family 4 (US8750264) in Group 6, which are located in an area of high patent activity populated by Qualcomm and Intel.

7. Patent Landscape Map 2 – Applications of D13 technologies



D13 Qualcomm Samsung LG Ericsson Huawei

Figure 7. Landscape Map based on D13's patent portfolio and selected applications of the technology identified by D13 as examples of near term commercialisable applications of its technology:

- air traffic control,
- UAS and counter UAS,
- automated vehicles,
- the Internet of Things.

D13 and the top 5 patent applicants have been plotted on the map (see Figure 5).

Group 1: Patent Family 2 (US10051475, US9798329) patent families are in an area of high patent activity. Other major players in this area are SZ DJI Technology with 110 patent families and Boeing with 50 patent families.

Group 2: Patent Family 1 (US9673920 and US8254847) and Group 3: Patent Family 5 (US10009208) are in areas of low patent activity.

8. Patent Landscape Map 2 – Most prolific patentees

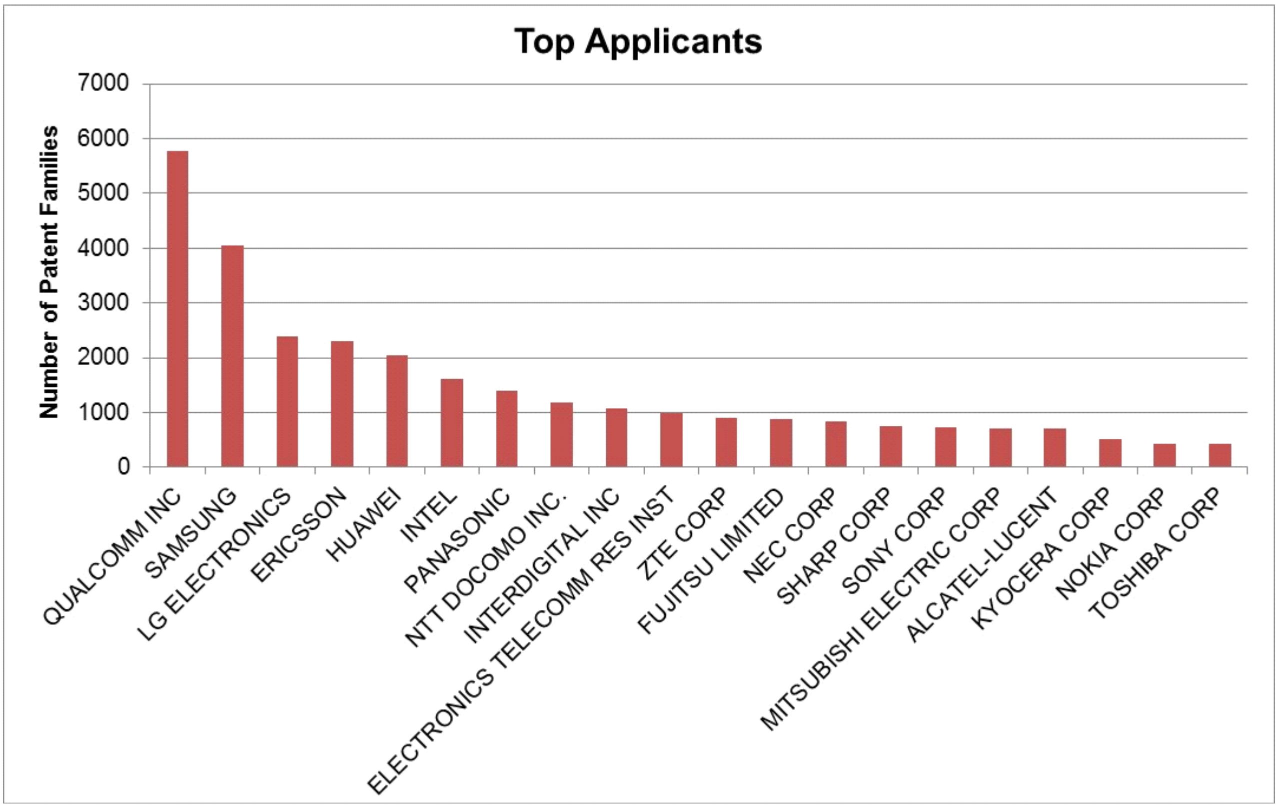
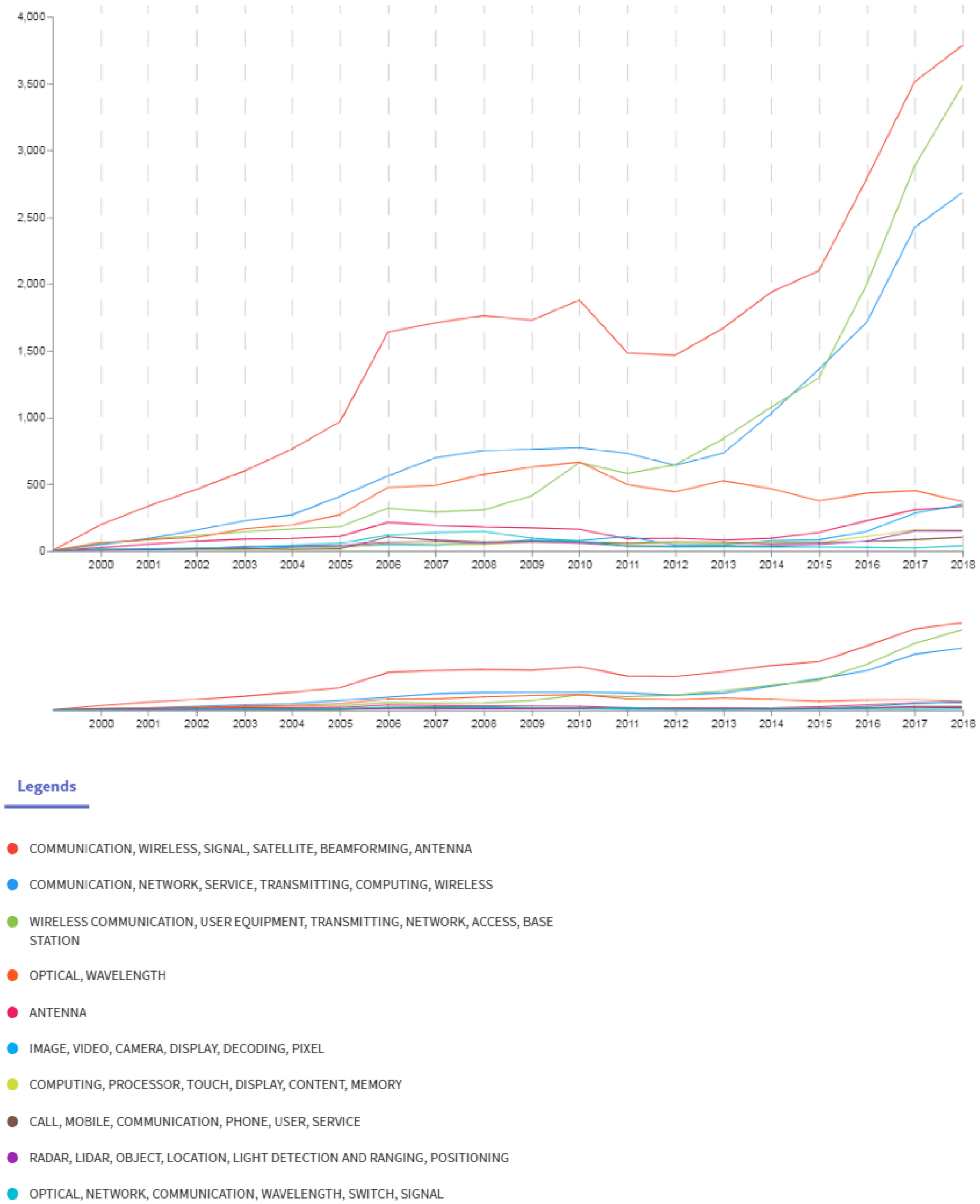


Figure 8. Following on from Figure 7, the most prolific patentees in the landscape map are plotted**.** The list is dominated by technology and telecommunication companies such as Qualcomm, Samsung and LG. Also of note is the Korean government funded Electronics and Telecommunications Research Institute. These parties represent potential acquirers of D13 technologies where relevant.

9. Technology velocity

Figure 9. If patents are proxies for economic value, then an increasingly steep curve reflects commensurately increasing commercial interest in the technology described by the patents. The analysis was conducted using the data set of Patent Landscape Map 1. D13 is operating in a technology sector experiencing rapid growth and commercial interest.



Disclaimer

The accuracy and currency of this report is dependent on the accuracy and currency of the services and databases utilized in the search. None of these services or databases utilized guarantees the accuracy or currency of their records. In relation to currency, where dates are provided, these are either accession dates or reflect the last update day and may not be the date of the most current record or event.

This search will not reveal any patents or patent applications unpublished at the date of this search. In most jurisdictions, patent specifications become eligible for publication 18 months from the earliest priority date claimed. However, publication may be delayed for a number of reasons. Further, the search will only reveal published applications which have been indexed on the services utilized at the date of the search. Delays in indexing occur for many reasons and may range from months to years depending on the jurisdiction.

The services and databases utilized do not necessarily provide full legal status, are not necessarily current or correct and some data may be missing. Importantly, Innography and Derwent Innovation provide all information on an "AS IS" and "AS AVAILABLE" basis and without warranties of any kind, expressed or implied. Similar claims are made by the producers and owners of other services and databases.

This search is not exhaustive and it is possible that other relevant documents could be located with a broader search strategy.

Outlook

D13's primary objective is to continue to drive its sales pipeline and deliver meaningful sales for the remainder of calendar year 2018 and FY'19. As previously stated, the Company has a strong degree of confidence that this will take place. In addition, D13 continues to expand its sales and distribution network. The Company now has multiple regional partners who have invested in D13, with the capability to execute and support multiple demonstrations, evaluations and trials with prospective customers. During FY'19 D13 anticipates an increased level of engagement through its in-country partnership network, delivering high quality opportunities, supporting increased sales and underpinning continued growth. This is expected to result in FY'19 being another transformational year, moving from initial closed sales to one in which larger (or repeat) orders are being fulfilled, as our channel partners and their customers expand their initial deployments.

Additionally, D13 has now prioritized the integration of MESMER™ into other Counter-UAS solutions along with multiple delivery platforms. Beyond delivering sales, the Company has a number of broader strategic objectives for the FY'19 period, including:

- Further development of the Company's IP position within the Counter-UAS space, and implementing the Company's licensing strategy to monetize this position;
- Continued advancement of MESMER™'s capabilities, including an expansion of the threat library, increased mitigation capacity and additional features for ease of use, deployment, and integration with other systems;
- Further refinement of the MESMER™ hardware set;
- Improvements to the existing supply chain and manufacturing process;
- An increased focus upon software licensing with third parties, such as the Thales Bushmaster and other similar opportunities.

Significant Changes in State of Affairs

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

Matters Subsequent to Balance Date

Changes in Directors

On 13 August 2018, Dr Miles Jakeman was appointed as a Non-Executive Director to the Board and Mr Timothy Davies resigned as a director.

Completion of T2 Convertible Notes Issue

On 20 August 2018, the Company placed the full $5m of Tranche 2 Secured Convertible Notes. This follows the successful placement of $7m in Tranche 1 of the Convertible Note, issued 22 March 2018.

Integration with Thales Bushmaster

The first mobile prototype of MESMER™ was launched at Land Forces, in conjunction with Thales Australia, and integrated into the Bushmaster vehicle. D13 had been working with Thales Australia, a trusted partner of the Australian Defence Force to develop this capability.

By integrating the prototype into the Bushmaster, MESMER™ can, for the first time, be operated from a mobile vehicle. This is in addition to its ability to act as a standalone fixed system. MESMER™ software is operating on the Electronic Warfare Platform of a Bushmaster, utilizing a prototype hardware solution. This has eventuated in the first robust mobile MESMER™ unit, aimed at deployment by military forces. D13, Thales Australia, and EPE (D13's Australian distributor) have entered a Memorandum of Understanding ("MOU") to enable the continued integration of the D13 MESMER™ counter-unmanned aerial system ("C-UAS") into the Thales Integral Computing System ("ICS") initially mounted in the Thales Bushmaster.

Skydrone South African Distribution Partnership

In September 2018, the Group signed an agreement with Skydrone Technologies ("Skydrone"), a leading African aerospace company in the remotely piloted aircraft systems market. This agreement provides a direct channel for customers on the Southern African continent to access D13's MESMER™ technology.

Africa represents one of the fastest growing markets in the world, with critical needs for protecting against the rapidly growing threats that drones present to the industrial, critical infrastructure, military, aerospace and defence markets.

This will extend the work performed for the Land Forces Conference 2018, for which a limited version of this integration has been developed. Under this MOU, the parties will work towards the integration of a fully functioning version of MESMER™ operating through the Thales ICS.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it could potentially result in unreasonable prejudice to 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 paid to members during the financial year (2017: $Nil).

Indemnification of Officers

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

Proceedings on Behalf of the Group

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on page 37.

Auditor

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

Remuneration Report

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

Remuneration philosophy

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

Remuneration committee

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

Remuneration structure

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

Non-executive director remuneration

<u>Objective</u>

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

<u>Structure</u>

The Company's Constitution and the ASX listing rules specify that the aggregate remuneration of non-executive

Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between them. The latest determination was at the Annual General Meeting held on 30 November 2015 when shareholders approved an aggregate remuneration amount of up to $500,000 per year.

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

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

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

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

The remuneration of non-executive directors for the year ending 30 June 2018 is detailed in Table 4 of this report.

Senior manager and executive director remuneration

Objective

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

Structure

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

Fixed remuneration

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

Equity-Based Remuneration

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

Table 1 - Shareholdings of key management personnel

Directors and Key Management	Opening balance	Granted as compensation	Acquired	Closing balance
2018				
J Hunter	41,600,000	-	-	41,600,000
K Kiernan	125,000	-	3,000,000	3,125,000
A Teller	50,000	-	3,000,000	3,050,000
P George	50,000	-	1,250,000	1,300,000
T Davies	-	-	600,000	600,000
S Shattil	20,800,000	-	-	20,800,000
S Patel	-	-	-	-
R Sen	40,000,000	-	-	40,000,000
S Kaminaris	-	2,000,000	-	2,000,000
Total	**102,625,000**	**2,000,000**	**7,850,000**	**112,475,000**
2017				
J Hunter	41,600,000	-	-	41,600,000
K Kiernan	125,000	-	-	125,000
A Teller	50,000	-	-	50,000
P George	50,000	-	-	50,000
T Davies	-	-	-	-
G Rezos	23,225,000	-	450,000	23,675,000[1]
R Sen	40,000,000	-	-	40,000,000
S Shattil	20,800,000	-	-	20,800,000
S Kaminaris	-	-	-	-
Total	**125,850,000**	**-**	**450,000**	**126,300,000**

[1] Securities held directly and indirectly at date of resignation on 30 June 2017

Table 2 - Option holdings of key management personnel

Directors	Opening balance	Options acquired	Options lapsed	Closing balance
2018				
J Hunter	-	4,515,000	-	4,515,000
K Kiernan	-	-	-	-
A Teller	-	-	-	-
P George	-	-	-	-
T Davies	-	-	-	-
S Shattil	-	-	-	-
S Patel	-	-	-	-
R Sen	-	-	-	-
S Kaminaris	-	-	-	-
Total	**-**	**4,515,000**	**-**	**4,515,000**
2017				
J Hunter		-	-	-
K Kiernan		-	-	-
A Teller		-	-	-
P George		-	-	-
T Davies		-	-	-
G Rezos	17,000,000	-	-	17,000,000[1]
R Sen		-	-	-
S Shattil		-	-	-
S Kaminaris		-	-	-
Total	**17,000,000**	**-**	**-**	**17,000,000**

[1] Securities held directly and indirectly at date of resignation on 30 June 2017

Table 3 - Performance right holdings of key management personnel

Directors	Opening balance	Rights acquired	Rights exercised	Rights lapsed	Closing balance
2018					
J Hunter	12,500,000	-	-	-	12,500,000
K Kiernan	3,000,000	750,000	(3,000,000)	-	750,000
A Teller	3,000,000	750,000	(3,000,000)	-	750,000
P George	1,250,000	750,000	(1,250,000)	-	750,000
T Davies	-	3,000,000	-	-	3,000,000[1]
S Shattil	5,000,000	-	-	-	5,000,000
S Patel	-	-	-	-	-
R Sen	12,500,000	-	-	-	12,500,000
S Kaminaris	-	8,000,000	-	-	8,000,000
Total	**37,250,000**	**13,250,000**	**(7,250,000)**	**-**	**43,250,000**

[1] Performance rights were forfeited at date of resignation on 13 August 2018

Directors	Opening balance	Rights acquired	Rights exercised	Rights lapsed	Closing balance
2017					
J Hunter	12,500,000	-	-	-	12,500,000
K Kiernan	3,000,000	-	-	-	3,000,000
A Teller	3,000,000	-	-	-	3,000,000
P George	1,250,000	-	-	-	1,250,000
T Davies	-[1]	-	-	-	-
G Rezos	4,000,000	-	-	-	4,000,000[2]
R Sen	12,500,000	-	-	-	12,500,000
S Shattil	5,000,000	-	-	-	5,000,000
S Kaminaris	-	-	-	-	-
Total	**41,250,000**	**-**	**-**	**-**	**41,250,000**

[1] Securities held directly and indirectly at date of appointment on 4 May 2017
[2] Securities held directly and indirectly at date of resignation on 30 June 2017

Management is engaged with a third-party consultant to advise on the adoption of an Employee Share Plan (ESP) for FY'19 and onwards. The plan is still under design and details will be provided to shareholders in conjunction with notification of the upcoming Annual General Meeting. Adoption of the plan will require shareholder approval.

Table 4 - Details of remuneration

Directors	Salary and fees	Other fees	Post-employment benefits	Share based payments	Total
2018					
J Hunter	244,399	-	-	41,971	286,369
K Kiernan	41,409	-	-	19,506	60,915
A Teller	43,313	-	-	19,506	62,820
P George	37,000	-	3,515	19,506	60,021
T Davies	37,000	-	3,515	78,025	118,540
S Shattil	226,295	-	-	-	226,295
S Patel	159,484	-	-	-	159,484
R Sen	226,295	-	-	-	226,295
S Kaminaris	239,226	-	-	353,092	592,318
Total	**1,254,421**	**-**	**7,030**	**531,606**	**1,793,057**
2017					
J Hunter	221,997	-	-	-	221,997
K Kiernan	33,134	3,401	-	-	36,535
A Teller	33,134	60,196	-	-	93,330
P George	24,000	-	-	-	24,000
T Davies	4,000	-	-	-	4,000
G Rezos	36,011	2,651	-	-	38,662
S Shattil	227,795	-	-	-	227,795
R Sen	227,795	-	-	-	227,795
S Kaminaris	245,190	-	-	-	245,190
Total	**1,053,056**	**66,248**	**-**	**-**	**1,119,304**

Performance of the company and shareholder returns

The application of Department 13 International Limited's executive reward framework have regard to the following shareholder return indices. No information was provided prior to 2016 as the Company was not listed on the ASX.

	2018 $	2017 $	2016 $
Sales revenue	2,714,468	1,101,151	394,501
EBITDA	(5,432,363)	(5,904,474)	(6,744,149)
Loss after income tax	**(6,913,691)**	**(6,221,243)**	**(6,759,804)**
Share price at financial year end ($)	0.09	0.13	0.13
Basic loss per share (cents per share)	(1.32)	(1.33)	(2.80)

Jonathan Hunter
Chief Executive Officer

28 September 2018

Department 13 International Ltd
Corporate Governance Statement

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

The Company's Corporate Governance Statement for the financial year ending 30 June 2018 is dated as at 28 September 2018 and was approved by the Board on 28 September 2018. The Corporate Governance Statement is available on the Company's website at http://www.department13.com

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Department 13 International Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

RSM

RSM AUSTRALIA PARTNERS

GNS

G N Sherwood
Partner

Sydney, NSW
Dated: 28 September 2018

Consolidated Statement of Profit or Loss & Other Comprehensive Income

For the Year Ended 30 June 2018

	Notes	For the Year Ended 30 June 2018 $	For the Year Ended 30 June 2017 $
Revenue from continuing operations	3	2,714,468	1,101,151
Cost of goods sold		(1,576,660)	(439,507)
Gross profit		**1,137,808**	**661,644**
Other income		145,758	26,300
Consulting expenses		(481,424)	(696,563)
Depreciation expense		(173,648)	(131,200)
Amortisation expense		(921,450)	(185,569)
Impairment expense		-	(24,326)
Finance costs		(386,230)	-
Employee benefits expense		(1,993,536)	(2,106,439)
Share based payments		(680,917)	-
Office and occupancy expenses		(336,444)	(302,226)
General and administration expenses		(433,547)	(490,846)
License fees and patent expense		(500,515)	(44,921)
Professional fees		(1,183,127)	(1,584,512)
Research and development expense		(831,794)	(596,085)
Materials		(31,971)	(11,367)
Advertising and marketing		(577,627)	(735,133)
Loss before income tax		(7,248,664)	(6,221,243)
Income tax expense	4	**-**	**-**
Loss for the year		**(7,248,664)**	**(6,221,243)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences on translating foreign operations, net of tax		376,834	(320,550)
Total comprehensive loss for the year		**(6,871,830)**	**(6,541,793)**
Loss attributable to members of the parent company		(7,248,664)	(6,221,243)
Total compressive income attributable to members of the parent company		(6,871,830)	(6,541,793)
Earnings per share			
From continuing operations			
- Basic/diluted losses per share (Cents)	20	(1.38)	(1.33)

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

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 $	As at 30 June 2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	746,906	4,924,890
Trade and other receivables	6	341,972	451,394
Inventory	7	1,235,659	11,795
Total Current Assets		**2,324,537**	**5,388,079**
Non-Current Assets			
Trade and other receivables	6	45,186	43,419
Property, plant and equipment	8	694,858	356,131
Intangible assets	9	6,509,890	2,288,552
Total Non-Current Assets		**7,249,934**	**2,688,102**
Total Assets		**9,574,471**	**8,076,181**
LIABILITIES			
Current Liabilities			
Trade and other payables	10	1,164,376	943,190
Patent lease liability	12	334,973	-
Deferred revenue		266,319	-
Total Current Liabilities		**1,765,668**	**943,190**
Non-Current Liabilities			
Financial liability	11	5,538,635	-
Total Non-Current Liabilities		**5,538,635**	**-**
Total Liabilities		**7,304,303**	**943,190**
Net Assets		**2,270,168**	**7,132,991**
EQUITY			
Contributed equity	13	20,738,871	19,987,561
Reserves	14	1,383,012	(251,519)
Accumulated losses		(19,851,715)	(12,603,051)
Equity		**2,270,168**	**7,132,991**

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2018

	Notes	Contributed equity $	Other contributed equity $	Accumulated Losses $	Reserves $	Total $
2017						
At 1 July 2016		**8,581,846**	**418,320**	**(6,800,128)**	**69,031**	**2,269,069**
Loss for the year		-	-	(6,221,243)	-	(6,221,243)
Foreign currency transaction reserve movement		-	-	-	(320,550)	(320,550)
Total comprehensive loss		-	-	(6,221,243)	(320,550)	(6,541,793)
Shares issued during the year	13	12,048,859	-	-	-	12,048,859
Share issue costs	13	(643,144)	-	-	-	(643,144)
Cancellation of performance shares	13	-	(418,320)	418,320	-	-
At 30 June 2017		**19,987,561**	**-**	**(12,603,051)**	**(251,519)**	**7,132,991**
2018						
At 1 July 2017		19,987,561	-	(12,603,051)	(251,519)	7,132,991
Loss for the year		-	-	(7,248,664)		(7,248,664)
Foreign currency transaction reserve movement		-	-	-	376,834	376,834
Total comprehensive loss		-	-	(7,248,664)	376,834	(6,871,830)
Shares issued during the year	13	695,286	-	-	-	695,286
Options and rights expense	13	-	-	-	680,917	680,917
Options converted		56,024	-		(56,024)	-
Embedded derivative on convertible notes issued		-	-	-	632,804	632,804
At 30 June 2018		**20,738,871**	**-**	**(19,851,715)**	**1,383,012**	**2,270,168**

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

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2018

	Notes	For the Year Ended 30 June 2018 $	For the Year Ended 30 June 2017 $
Cash flows from operating activities			
Receipts from customers		3,225,117	839,154
Payments to suppliers and employees		(8,448,470)	(6,989,162)
Interest received		15,142	26,314
Interest paid		(228,140)	-
Awards received		133,172	-
Net cash outflow from operating activities	17	**(5,303,179)**	**(6,123,694)**
Cash flows from investing activities			
Payments for plant and equipment		(497,715)	(356,350)
Payment for intellectual property		(1,907,767)	-
Development of intangible assets		(2,910,629)	(2,288,552)
Net cash outflow from investing activities		**(5,316,111)**	**(2,644,902)**
Cash flows from financing activities			
Shares issued net of issue costs		-	11,405,715
Convertible note proceeds, net of transaction costs		6,262,978	-
Proceeds from options exercised		253,201	-
Net cash inflow from financing activities		**6,516,179**	**11,405,715**
Net (decrease)/increase in cash and cash equivalents		(4,103,111)	2,637,119
Cash and cash equivalents at the beginning of the financial year		4,924,890	2,513,371
Foreign exchange adjustment to cash balance		(74,873)	(225,600)
Cash and cash equivalents at end of the year		**746,906**	**4,924,890**

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

Notes to the Financial Statements

For the Year Ended 30 June 2018

1 Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of Department 13 International Ltd (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Basis of preparation

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

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

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

Accounting policies

(a) <u>Basis of consolidation</u>

Basis of consolidation The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2018. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

(b) <u>Reverse acquisition accounting</u>

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

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

(c) Foreign currency translation

(i) Functional currency

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

The functional currency of the Company is Australia dollars (AUD).

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

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

(ii) Presentation currency

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

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

(d) Revenue recognition

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

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.
Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

The nature of the company products includes the sale of hardware that contains embedded software. The sales contracts can include equipment demonstration costs, ongoing maintenance, site surveys, installation, training and general labour consulting. These sales contracts are treated as multiple-element arrangements. The Company has determined that the software is essential to the functionality of the product as a whole and the sales of the hardware is treated as a non-software deliverable. The sales contracts are allocated to the various components using Management Best Estimate of the Selling Price. The various revenue components are then accounted for on the following basis:

Hardware and materials	When shipped
Equipment demonstration	On delivery of the demonstration
Maintenance	Over the life of the maintenance contract
Site surveys	When the surveys are conducted
Installation costs	On completion of the installation
Training and general labour consulting	At the time the services are provided

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

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

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

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

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

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

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

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

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

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

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

(f) Leases

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

(g) Impairment of assets

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

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

(h) Cash and cash equivalents

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

(i) Trade and other receivables

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

(j) Other receivables

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

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

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

(k) Inventory

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 suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) Trade and other payables

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

(m) Provisions

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

(n) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Retirement benefit obligations

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

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

(o) Contributed equity

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

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office.

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

(q) Intangible assets

(i) Recognition of intangible assets

Internally developed software

Expenditure on the research phase of projects to develop new customised software and/or hardware is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the software; and

the software will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Costs that are directly attributable include employees' (other than Directors') costs incurred on software and hardware development, along with an appropriate portion of relevant overheads and borrowing costs.

Subsequent measurement

All intangible assets, including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing annually.

The following useful lives are applied:

- Software: 5 years

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing annually.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognised in profit or loss within other income or other expenses.

(r) Plant and equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

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

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

Plant and equipment – 1 to 10 years

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

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

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

(s) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes denominated in AUD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognised.

De-recognition of financial liabilities

The Company de-recognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(t) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(u) Operating segments

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

(v) Share-based payments

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

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

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

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

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

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

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

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

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

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

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

(w) Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the discharge of liabilities in the normal course of business.

As disclosed in the annual report, the Group incurred a loss after tax of $7,248,664 and had net cash outflows from operating activities of $5,303,179 for the year ended 30 June 2018. As at that date the Group had net current assets of $558,869, net assets of $2,270,168 as well as cash and cash equivalents of $746,906 as at 30 June 2018.

The Directors believe that there are reasonable grounds that the Group will be able to continue as a going concern, after consideration of the following factors:

- As disclosed in Note 23, subsequent to year end the Company completed the T2 convertible notes issue, which has raised AU$5 million;
- The Group has cash and cash equivalents of $746,906 as at 30 June 2018. As at that date, the Group had net current assets of $558,869 and net assets of $$2,270,168. The Group has performed a cash flow forecast, and determined that it has adequate cash resources in place to fund its operations;
- If required, the Group has the ability to continue to raise additional funds on a timely basis pursuant to the Corporations Act 2001. The Group has raised $8,96 million in Convertible Note funding, and $0.7m in equity funding the previous 12 months and the Directors have no reason to believe that it will not be able to continue to source equity or alternative funding if required; and
- The Group has the ability to scale back a significant portion of its development activities if required.

Accordingly, the Directors believe that the Group will be able to continue as a going concern, and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

(x) Annual report differences from lodged Appendix 4E

Adjustments have been made to the 2018 financial statements subsequent to the lodgement of the Appendix 4E on 31 August 2018. The below is a summary of the differences between the financial statements contained in the Annual Report and the lodged Appendix 4E. The adjustments are attributable to the patent lease expense accrued but unpaid for 2018 that had not been accounted at the time of lodgement of the Appendix 4E.

	Annual Report	Lodged Appendix 4E	Difference
	$	$	$
Loss after income tax	(7,248,664)	(6,913,691)	(334,973)
Net assets	2,270,168	2,605,141	(334,973)

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

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

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107;

- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.

New Accounting Standards and Interpretations not yet mandatory or early adopted

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (December 2014) AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The directors do not anticipate that the adoption of AASB 9 will have a significant impact on the Group's financial instruments.	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers AASB 15: • Replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations: ○ establishes a new revenue recognition model ○ changes the basis for deciding whether revenue is to be recognised over time or at a point in time ○ provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing) ○ expands and improves disclosures about revenue The expected impact on the first time adoption of the Standard for the year ending 30 June 2019 includes: • Change in timing of income recognition depending on performance consideration in the Group's contracts Change in income measurement for possible variable consideration in the Group's contracts	1 January 2018	30 June 2019
AASB 16 Leases AASB 16: • Replaces AASB 117 Leases and some lease-related Interpretations • requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • largely retains the existing lessor accounting requirements in AASB 117 • requires new and different disclosures about leases When this Standard is first adopted for the year ending 30 June 2020, it is estimated that additional lease liabilities of approximately $1.85 million and a corresponding right to use asset will be required to be accounted for.	1 January 2019	30 June 2020

2 Critical accounting judgements, estimate and assumptions

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

Provision for impairment of receivables

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

License and patent expenses

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

Other patents purchased from outside the Group have been capitalised in the 2018 financial year.

Capitalised Development Costs

The Group commenced the capitalisation of its product development costs in relation to its MESMER™ Counter Drone Technology in the 2017 financial year. There is significant judgement required in relation to the determination of the point at which the product development progresses from the research phase into the development phase. It could possibly have been argued that this may have occurred in the previous financial year however the directors adopted a more prudent approach and commenced the capitalisation of development expenses from 1 July 2016. In addition, judgement is also required around the allocation of expenditure and resources to the development of the product. There is therefore a degree of estimation uncertainty inherent on the costs and resources allocated into the capitalised development costs.

Share based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Convertible note

At 30 June 2018 the Group had a balance of $5,538,635 in respect of the convertible notes. The terms of the convertible note include:

Term:	24 months
Currency:	AUD
Funds received:	$7,000,000
Interest payable:	12% per annum, accrued daily, paid quarterly
Conversion:	Convertible to fully paid ordinary shares at a $0.10 per convertible note

On issuance of the convertible notes, the host debt liability was recognised at the net present fair value of future repayments. The embedded derivative component of the convertible note was measured as the residual amount after separating the host debt liability. The host debt is carried at amortised cost using the effective interest method until it is extinguished on conversion or redemption.

As per AASB 139 paragraph 11

An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability.

The Group has determined the characteristics of the convertible note meet the criteria of an embedded derivative according the above accounting standards.

As per AASB 132 paragraph 16

… the instrument is an equity instrument if, and only if, both conditions a) and b) below are met.

a) The instrument includes no contractual obligation:

   i. to deliver cash or another financial asset to another entity; or

   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

   i. a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

   ii. a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

As the Company's convertible notes stipulate a fixed price for conversion, the embedded derivative has recognised as an equity instrument at residual value.

Patent License Agreement

As stated in Note 12, the company entered into an amended and restated patent license agreement so as to modify the agreement that was concluded between Genghiscomm Holdings, LLC and Department 13, Inc in September 2015. The amended agreement allows D13 to secure the right and license to use, develop, manufacture, market, and commercialize a portfolio of Patent Rights. The agreement provides for a series of minimum royalty amounts.

D13 at its option, may terminate the Agreement by providing Licensor written notice of intent to terminate, which such termination will be effective 90 days following receipt of such notice by the Licensor. Management has exercised their judgement in determining that the minimum royalty are not a liability on the basis that D13 can terminate this agreement at their discretion at any time with no financial penalty. The minimum royalty payments have therefore been accounted for a lease of intellectual property in accordance with AASB 117, Leases.

There is significant judgement and estimation uncertainty with regards to determining the expected term of the lease in order to effect the straight lining of the lease payments. Management have exercised their judgement in determining that 5 years was appropriate given the pace at which technology changes and the fact that the capitalised development costs are amortised over a 5-year period.

	For the Year Ending 30 June 2018	For the Year Ending 30 June 2017
	$	$

3 Revenue and other income

Revenue from continuing operations		
Rendering of services	-	1,001,749
Sale of goods – MESMER	2,714,468	-
Sale of goods – parts and accessories	-	99,402
	2,714,468	**1,101,151**

4 Income tax expense

The components of tax expense comprise:		
Current tax	**-**	-
Deferred tax	**-**	-
	-	-

Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(7,248,664)	(6,221,243)
Tax at the Australian tax rate of 27.5% (2017 – 27.5%)	**(1,993,382)**	**(1,710,842)**
Add tax effect of:		
- Other non-allowable items	783,447	88,056
Less tax effect of:		
- Other deductible items	(825,701)	(702,694)
Carried forward tax benefit not recognized in the current year	2,035,636	2,325,480
Total income tax expense	**-**	**-**

The Group has carry forward tax losses related to international operations of approximately $19,996,204 (2017: $12,593,890), which will generally expire at various dates in the next 20 years. Further, such losses are also subject to change of ownership provisions.

Accordingly, some or all of the international losses may be limited in future periods or may expire before being able to be applied to reduce future foreign income tax liabilities.

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

	As at 30 June 2018	As at 30 June 2017
	$	$

5 Cash and cash equivalents

Cash at bank and in hand	746,906	4,924,890
	746,906	**4,924,890**

6 Trade and other receivables

CURRENT		
Trade receivables	72,896	312,835
Prepayments	185,948	25,983
Other receivables	83,128	112,576
	341,972	**451,394**
NON-CURRENT		
Deposits and bonds paid	45,186	43,419
	45,186	**43,419**
	387,158	**494,813**

7 Inventory

Finished goods	484,549	-
Parts and components	751,110	11,795
	1,235,659	**11,795**

8 Property, plant and equipment

	Demonstration assets	Office equipment	Leasehold improvements	Total
Cost	502,784	438,167	82,954	1,023,905
Accumulated depreciation	(95,980)	(211,048)	(22,020)	(329,048)
	406,804	**227,119**	**60,934**	**694,857**
Balance at 1 July 2016		126,678	5,371	132,049
Additions	105,312	175,858	63,899	345,069
Depreciation	(27,376)	(94,675)	(9,149)	(131,200)
Effect of FX translation	523	9,701	(11)	10,213
Balance at 30 June 2017	**78,459**	**217,562**	**60,110**	**356,131**
Additions	393,184	93,302	19,514	506,000
Depreciation	(65,023)	(96,631)	(11,994)	(173,648)
Disposals	-	-	(8,208)	(8,208)
Effect of FX translation	184	12,887	1,512	14,583
Balance at 30 June 2018	**406,804**	**227,120**	**60,934**	**694,858**

	As at 30 June 2018	As at 30 June 2017
	$	$

9 Intangible assets

Capitalised development costs	4,505,763	2,470,578
Patents purchased	2,004,127	-
Closing balance	**6,509,890**	**2,288,552**

(a) Capitalised development costs

Capitalised development costs	5,632,412	2,470,578
Accumulated amortisation	(1,126,649)	(182,026)
Closing balance	**4,505,763**	**2,288,552**
Balance at beginning of the year	2,288,552	-
Additions	3,161,834	2,470,578
Amortisation	(896,081)	(185,569)
Effect of foreign currency translation	(48,542)	3,543
Balance at end of year	**4,505,763**	**2,288,552**

(b) Patents purchased

Purchased patents	2,029,496	-
Accumulated amortisation	(25,369)	-
Closing balance	**2,004,127**	-
Balance at beginning of the year	-	-
Additions	2,029,496	-
Amortisation	(25,369)	-
Effect of foreign currency translation	-	-
Balance at end of year	**2,004,127**	-

10 Trade and other payables

CURRENT		
Trade payables	584,688	383,365
Payroll liabilities	441,124	353,872
Other payables	138,564	130,953
Share applications	-	75,000
	1,164,376	**943,190**

	As at 30 June 2018	As at 30 June 2017
	$	$

11 Financial liability

Convertible note – debt host liability	**5,538,635**	**-**
	5,538,635	**-**

Reconciliation of movements

Loans originated	7,000,000	-
Transaction costs	(765,567)	-
Equity component split out of debt	(655,271)	-
Host debt liability on issue date	**5,579,162**	**-**
Amortisation interest in the period	156,093	-
Converted to equity following notice by noteholders	(196,620)	-
	5,538,635	**-**

Convertible Note

On 22 March 2018, the Company issued 70,000,000 convertible notes following completion of a $7m Tranche 1 placement.

The term of the loan is for two years and interest is due and payable at a rate of 12% per annum on a quarterly basis. Unpaid interest amounts are accrued and applied on the face value of the accumulated balance of the loan. The agreement provides that the lender may convert the amount to ordinary shares at $0.10 per convertible note. Transaction cost of $765,568 have been capitalised into the debt and equity components of the convertible note on a pro rata basis. The fair value of the host debt liability was determined using an estimate market interest rate of 18%.

12 Commitments

Operating Lease

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

	Minimum Lease Payments Due			
	Within 1 Year	1-5 Years	After 5 Years	Total
	AUD	AUD	AUD	AUD
30 June 2018	345,113	5,475,323		5,820,436
30 June 2017	132,949	468,606	-	601,555

Lease expense during the period amounted to $452,305 (2017: $120,307) representing the minimum lease payments.

Patent Licence Agreement

The company entered into an amended and restated patent license agreement so as to modify the agreement that was concluded between Genghiscomm Holdings, LLC and Department 13, Inc in September 2015. The amended agreement allows D13 to secure the right and license to use, develop, manufacture, market, and commercialize a new portfolio of Patent Rights in addition to the original portfolio. In consideration of the rights granted to D13 they are required to pay Genghiscomm Holdings LLC a running royalty equal to 7% of Net Product Sales and 3% of Net Service Sales including research and development contracts. The agreement provides for the following minimum amounts:

Contract Year 2018:	$150,000
Contract Year 2019:	$300,000
Contract Year 2020:	$500,000
Contract Year 2021:	$1,000,000
Contract Year 2022 and every year thereafter:	$2,000,000

D13 will be required to pay an additional amount equal to the difference between the stated minimum royalty amount above and the actual royalties paid. These minimum payments can be paid in cash or by way of equity. D13 at its option and discretion, may choose to satisfy its obligations in respect of the Minimum Royalty Shortfall in whole or in part by issuing a number of ordinary shares that are equivalent in value to the applicable Minimum Royalty Shortfall or part thereof. The value of an ordinary share will be as determined by the (10) ten days volume weighted average price (VWAP) immediately before the Contract Quarter as defined in the Agreement.

D13 at its option, may terminate the Agreement by providing Licensor written notice of intent to terminate, which such termination will be effective 90 days following receipt of such notice by the Licensor. Should the agreement be terminated, D13 will lose the right and license to use, develop, manufacture, market, and commercialize the portfolio of Patent Rights. The minimum royalty payments have not been accounted for as a liability on the basis that D13 can terminate this agreement at their discretion with no financial penalty.

13 Contributed equity

(a) Share capital

		As at 30 June 2018		As at 30 June 2017
	No. of Shares	**$**	**No. of Shares**	**$**
Ordinary shares				
At the beginning of the year	512,487,235	19,987,561	415,503,500	8,581,846
Issue of shares pursuant to public offer	-	-	96,350,322	11,968,859
Shares issued to employee and vendors	2,000,000	223,000	633,413	80,000
Performance rights converted to shares	11,250,000	56,024		
Options converted to shares	3,374,732	84,368		
Convertible notes converted to shares[1]	-	387,918		
Share issue expenses	-	-	-	(643,144)
	529,111,967	**20,738,871**	**512,487,235**	**19,987,561**

[1] Notices of conversion received prior to balance date at 30 June 2018 and shares were issued subsequent to year end

Ordinary shares

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

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

(b) Other contributed equity

	As at 30 June 2018 No. of Performance Shares	As at 30 June 2018 $	As at 30 June 2017 No. of Performance Shares	As at 30 June 2017 $
Performance shares				
At the beginning of the year	-	-	284,000,000	418,320
Cancellation of performance shares	-	-	(284,000,000)	(418,320)
	-	-	-	-

(c) Options

	As at 30 June 2018 No. of Options	As at 30 June 2018 $	As at 30 June 2017 No. of Options	As at 30 June 2017 $
At the beginning of the year	40,000,000	179,860	42,100,000	179,860
Options issued in the year	4,515,000	41,971		
Options exercised	(3,374,732)	-		
Options expired or forfeited	-	-	(2,100,000)	-
	41,140,268	**221,831**	**40,000,000**	**179,860**

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

1. 1,350,000 unlisted options expiring 28 December 2022, exercisable at 25 cents each;
2. 36,625,268 unlisted options expiring 18 December 2020, exercisable at 2.5 cents each;
3. 1,525,000 unlisted options expiring 28 December 2022, exercisable at 40 cents each;
4. 1,640,000 unlisted options expiring 28 December 2022, exercisable at 50 cents each;

(d) Performance rights

	As at 30 June 2018 No. of Rights	As at 30 June 2018 $	As at 30 June 2017 No. of Rights	As at 30 June 2017 $
At the beginning of the year	51,250,000	-	51,250,000	-
Rights issued in the year	16,525,000	638,946	-	-
Rights converted	(11,250,000)	(56,025)	-	-
Rights expired or forfeited	(500,000)	-	-	-
	56,025,000	**582,921**	**51,250,000**	**-**

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

1. 40,000,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio. The terms of these rights have been varied and these rights will now vest over the period from October 2018 to September 2021. These rights were previously subject to vesting Milestone conditions, which were met in August 2018. No value had previously been accounted for in relation to these rights as they did not meet the vesting conditions until the current reporting period;
2. 2,775,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio, vesting on second anniversary of employment start date and after meeting set Performance Milestones;
3. 8,000,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio. The terms of these rights have been varied and these rights now vest 2 years from 22 September 2017 and after meeting set Performance Milestones;
4. 5,250,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio. 1.75 million rights vest at 1 year, 1.75 million rights vest at 2 years and .75 million rights vest at 3 years.

	As at 30 June 2018	As at 30 June 2017
	$	$

14 Reserves

Share based payments reserve	804,753	179,860
Foreign currency translation reserve	(54,545)	(431,379)
Equity component of convertible notes	632,804	-
	1,383,012	**(251,519)**
(a) Share based payments reserve		
Balance beginning of financial year	179,860	179,860
Fair value of options and rights issued during the year	680,917	-
Options and rights exercised in the year	(56,024)	
Balance at end of the financial year	**804,753**	**179,860**
(b) Foreign currency translation reserve		
Balance beginning of financial year	(431,379)	(110,829)
Movement	376,834	(320,550)
Balance at end of the financial year	**(54,545)**	**(431,379)**
(c) Equity component of convertible notes		
Balance beginning of financial year	-	-
Movement	632,804	-
Balance at end of the financial year	**632,804**	-

15 Segment information

The Group operates in one segment being technology development specialising in drone defence, cyber security and RF software communications and networking. Department 13 Inc is based in Columbia, Maryland, USA. This operating segment is monitored by the Group's chief operating decision makers and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision makers of the Group are the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

The following tables present certain asset and liability information regarding geographical segments for the years ended 30 June 2018 and 30 June 2017.

Segment performance

	Australia		USA		Total	
	June 2018	**June 2017**	**June 2018**	**June 2017**	**June 2018**	**June 2017**
	$	**$**	**$**	**$**	**$**	**$**
External sales	-	-	2,714,468	1,101,151	2,714,468	**1,101,151**
Total segment revenue	**-**	**-**	**2,714,468**	**1,101,151**	**2,714,468**	**1,101,151**
Segment operating result	(829,973)	(801,929)	(5,858,813)	(5,102,545)	(6,688,786)	**(5,904,474)**
EBITDA	**(829,973)**	**(801,929)**	**(5,858,813)**	**(5,102,545)**	**(6,688,786)**	**(5,904,474)**
Depreciation and amortisation	-	-	(173,648)	(316,769)	(173,648)	**(316,769)**
Finance costs	(386,230)	-	-	-	(386,230)	**-**
Loss before income tax expense	(1,216,203)	(801,929)	(6,032,461)	(5,419,314)	(7,248,664)	**(6,221,243)**
Income tax expense	-	-	-	-	-	**-**
Loss after income tax expense	**(1,216,203)**	**(801,929)**	**(6,032,461)**	**(5,419,314)**	**(7,248,664)**	**(6,221,243)**

Assets and liabilities

Segment assets	268,045	929,404	9,306,426	7,146,776	9,574,471	8,076,180
Segment liabilities	5,654,195	210,166	1,650,108	733,023	7,304,303	943,190

16 Share based payments

In the 2018 financial year, the following transactions were equity settled by the Group:

Shares

On 28 December 2017, the company issued 2,000,000 shares as employee benefits to operational staff.

Performance Rights

Grant Date	Expiry Date	Exercise Price	Balance at 1 Jul 2017	Granted	Cancelled	Converted to Ordinary Shares	Balance at 30 Jun 2018
18/12/2015	18/12/2018	$-	51,250,000	-	-	(11,250,000)	40,000,000[1]
3/08/2017	3/08/2024	$-	-	3,275,000	(500,000)	-	2,775,000[2]
28/12/2017	28/12/2024	$-	-	8,000,000	-	-	8,000,000[3]
28/12/2017	28/12/2020	$-	-	1,750,000	-	-	1,750,000[4]
28/12/2017	28/12/2021	$-	-	1,750,000	-	-	1,750,000[5]
28/12/2017	28/12/2022	$-	-	1,750,000	-	-	1,750,000[6]
			51,250,000	**16,525,000**	**(500,000)**	**(11,250,000)**	**56,025,000**
Weighted average exercise price			$-	$-	$-	$-	$-

Notes:

1. 40,000,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio. The terms of these rights have been varied and these rights will now vest over the period from October 2018 to September 2021. These rights were previously subject to vesting Milestone conditions, which were met in August 2018. No value had previously been accounted for in relation to these rights as they did not meet the vesting conditions until the current reporting period;
2. These Rights vest and convert subject to Performance Milestones being achieved;
3. 8,000,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio. The terms of these rights have been varied and these rights now vest 2 years from 22 September 2017 and after meeting set Performance Milestones;
4. These Rights vest 1 year from 28 December 2017;
5. These Rights vest 2 years from 28 December 2017;
6. These Rights vest 3 years from 28 December 2017.

Options

Grant Date	Expiry Date	Exercise Price	Balance at 1 Jul 2017	Granted	Exercised	Balance at 30 June 2017
18/12/2015	18/12/2020	$0.025	40,000,000	-	(3,374,732)	36,625,268
28/12/2017	28/12/2022	$0.250	-	1,350,000	-	1,350,000
28/12/2017	28/12/2022	$0.400	-	1,525,000	-	1,525,000
28/12/2017	28/12/2022	$0.500	-	1,640,000	-	1,640,000
			40,000,000	**4,515,000**	**(3,374,732)**	**41,140,268**
Weighted average exercise price			$0.025	$0.391	$0.025	$0.065

Set out below are the options exercisable at the end of the financial period:

Grant Date	Expiry Date	2018 Number	2017 Number
18/12/2015	18/12/2020	41,140,268	40,000,000
		41,140,268	40,000,000

The weighted average share price during the financial period was $0.096

The weighted average remaining contractual life of options at the end of the financial period was 2.69 years.

For options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Fair Value at Grant Date
28/12/2017	28/12/2022	$0.100	$0.250	100%	-%	2.3%	$0.0621
28/12/2017	28/12/2022	$0.100	$0.400	100%	-%	2.3%	$0.0546
28/12/2017	28/12/2022	$0.100	$0.500	100%	-%	2.3%	$0.0509

17 Reconciliation of loss after income tax to net cash outflow from operating activities

	For the Year Ending 30 June 2018	For the Year Ending 30 June 2017
	$	$
Loss for the year	(7,248,664)	(6,221,243)
Depreciation expense	173,648	131,200
Amortisation expense	921,450	185,569
Effective interest on convertible note	155,576	-
Impairment expense	-	24,326
Effects of foreign currency translation	376,834	(320,550)
Share based payments	680,917	-
Other non-cash transactions	-	18,327
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	109,421	(348,646)
Increase in trade and other payables	751,503	407,323
Increase in inventory	(1,223,864)	-
Net cash outflow from operating activities	**(5,303,179)**	**(6,123,694)**

18 Financial risk management

(a) Financial risk management

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

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

Credit risk

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

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

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

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

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

	As at 30 June 2018	As at 30 June 2017
	$	$
Cash and cash equivalents	746,906	4,924,890
Trade and other receivables	387,158	494,813

Liquidity risk

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

Market risk

Foreign exchange risk

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

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

	Short Term Exposure	Long Term Exposure
	$	$
30 June 2018		
Financial assets	1,088,878	45,186
Financial liabilities	1,164,376	5,538,635
30 June 2017		
Financial assets	5,376,284	43,419
Financial liabilities	943,190	-

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

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

	Loss for the Year		Equity	
	+ 10%	**-10%**	**+ 10%**	**-10%**
30 June 2018	548,405	(670,273)	1,382,068	(1,689,194)
30 June 2017	492,665	(602,146)	(583,069)	712,638

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

(b) Financial instrument composition and maturity analysis

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

	Weighted average interest rate	Non-interest bearing	Floating interest rate	Fixed interest rate maturing within 1 year	Total
	%	$	$	$	$
2018					
Financial Assets					
Cash and cash equivalents	0.53%	-	746,906	-	746,906
Trade and other receivables	-	387,158	-	-	387,158
Total financial assets		387,158	746,906	-	1,134,064
Financial Liabilities					
Trade and other payables	-	1,164,376	-	-	1,164,376
Convertible notes	12%	-	-	5,538,635	5,538,635
Total financial liabilities		1,164,376	-	5,538,635	6,703,011
2017					
Financial Assets					
Cash and cash equivalents	0.71%	-	4,924,890	-	4,924,890
Trade and other receivables	-	494,813	-	-	494,813
Total financial assets		494,813	4,924,890	-	5,419,703
Financial Liabilities					
Trade and other payables	-	943,190	-	-	943,190
Total financial liabilities		943,190	-	-	943,190

	Carrying amount	Contractual cash flow due 1 to 3 months	Contractual cash flow due 3 months to 1 year	Contractual cash flow due 1 to 5 years
	$	$	$	$
2018				
Financial Assets				
Trade and other receivables	387,158	156,025	-	45,186
Total	387,158	156,025	-	45,186
Financial liabilities				
Trade and other payables	1,164,376	1,087,265	-	-
Total	1,164,376	1,087,265	-	-
2017				
Financial Assets				
Trade and other receivables	494,813	342,857	-	43,419
Total	494,813	342,857	-	43,419
Financial liabilities				
Trade and other payables	943,190	794,243	-	-
Total	943,190	794,243	-	-

(c) Net fair values

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

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

(d) Sensitivity Analysis

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

19 Auditor’s remuneration

	For the Year Ended 30 June 2018	For the Year Ended 30 June 2017
	$	$
RSM Australia Partners		
- Audit and review services	59,000	47,000

20 Earnings per share

	For the Year Ended 30 June 2018	For the Year Ended 30 June 2017
	Cents	**Cents**
From continuing operations		
Basic earnings per share	(1.38)	(1.33)
Diluted earnings per share	(1.38)	(1.33)
Weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
- Basic earnings per share	525,035,552	469,043,752
- Diluted earnings per share	525,035,552	469,043,752
Weighted average number of other securities outstanding not included in diluted EPS calculations as the securities are anti-dilutive in nature	94,000,268	93,350,000

The loss used to calculate earnings per share was $7,248,664 (2017: $6,221,243).

21 Related party transactions

(a) Key management personnel

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

(b) Transactions with other related parties

The company entered into an amended and restated patent license agreement so as to modify the agreement that was concluded between Genghiscomm Holdings, LLC and Department 13, Inc in September 2015. The amended agreement allows D13 to secure the right and license to use, develop, manufacture, market, and commercialize a new portfolio of Patent Rights in addition to the original portfolio. For more details on the terms and conditions of the modified agreement, please refer to Note 12.

Genghiscomm Holdings, LLC is considered a related party is it is an associate of Mr Steve Shattil, a Director of the Company. Mr Shattil is President of Genghiscomm Holdings, LLC.

The Board considers the modifications to be on arm’s length terms.

22 Contingent assets and liabilities

As stated in Note 12, the company entered into an amended and restated patent license agreement so as to modify the agreement that was concluded between Genghiscomm Holdings, LLC and Department 13, Inc in September 2015. In consideration of rights granted to D13 they are required to pay Licensee will pay Genghiscomm Holdings LLC a running royalty equal to 7% of Net Product Sales and 3% of Net Service Sales including research and development contracts.D13 will be required to pay an additional amount equal to the difference between the stated minimum royalty amount above and the actual royalties paid. These minimum payments can be paid in cash or by way of equity.

The Group did not have any other contingent assets or liabilities at 30 June 2018.

23 Events occurring after the balance sheet date

Changes in Directors

On 13 August 2018, Dr Miles Jakeman was appointed as a Non-Executive Director to the Board and the Mr Timothy Davies resigned as a director.

Completion of T2 Convertible Notes Issue

On 20 August 2018, the Company placed the full $5m of Tranche 2 Secured Convertible Notes. This follows the successful placement of $7m in Tranche 1 of the Convertible Note, issued 22nd March 2018.

Integration with Thales Bushmaster

The first mobile prototype of MESMER™ was launched at Land Forces, in conjunction with Thales Australia, and integrated into the Bushmaster vehicle. D13 had been working with Thales Australia, a trusted partner of the Australian Defence Force to develop this capability.

By integrating the prototype into the Bushmaster, MESMER™ can, for the first time, be operated from a mobile vehicle. This is in addition to its ability to act as a standalone fixed system. MESMER™ software is operating on the Electronic Warfare Platform of a Bushmaster, utilizing a prototype hardware solution. This has eventuated in the first robust mobile MESMER™ unit, aimed at deployment by military forces. D13, Thales Australia, and EPE (D13's Australian distributor) have entered a Memorandum of Understanding ("MOU") to enable the continued integration of the D13 MESMER™ counter-unmanned aerial system ("C-UAS") into the Thales Integral Computing System ("ICS") initially mounted in the Thales Bushmaster.

This will extend the work performed for the Land Forces Conference 2018, for which a limited version of this integration has been developed. Under this MOU, the parties will work towards the integration of a fully functioning version of MESMER™ operating through the Thales ICS.

Skydrone South African Distribution Partnership

In September 2018, the Group signed an agreement with Skydrone Technologies ("Skydrone"), a leading African aerospace company in the remotely piloted aircraft systems market. This agreement provides a direct channel for customers on the Southern African continent to access D13's MESMER™ technology.

Africa represents one of the fastest growing markets in the world, with critical needs for protecting against the rapidly growing threats that drones present to the industrial, critical infrastructure, military, aerospace and defence markets.

Apart from the above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

a) The Group's operations in future financial years; or

b) The results of those operations in future financial years; or

c) The Group's state of affairs in future financial years.

24 Parent entity disclosures

	2018	2017
	$	$
Department 13 International Ltd		
Financial position		
Assets		
Total current assets	268,045	929,404
Total non-current assets	30,103,244	23,205,053
Total assets	30,371,289	24,134,457
Liabilities		
Total current liabilities	115,559	210,166
Total non-current liabilities	5,538,635	-
Total liabilities	5,654,194	210,166
Equity		
Contributed equity	30,378,286	29,926,975
Reserves	2,654,076	1,361,731
Accumulated losses	(8,615,267)	(7,364,415)
Total equity	**24,717,095**	**23,924,291**
Financial performance		
Loss for the year	(832,531)	(801,929)
Other comprehensive income	-	-
Total comprehensive loss	**(832,531)**	**(801,929)**

Declaration by Directors

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

(a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the financial position and performance of the Company and the Group; and

ii. complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;

(b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

(d) there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable;

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

On behalf of the Directors:

Jonathan Hunter
Chief Executive Officer and Chairman

28 September 2018

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INDEPENDENT AUDITOR'S REPORT
To the Members of Department 13 International Limited

Opinion

We have audited the financial report of Department 13 International Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Company is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) 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 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed this matter
Intangible assets ***Refer to Note 10 in the financial statements***	
As at 30 June 2018, the Company has $6,509,890 of intangible assets in relation to the commercial development of its Mesmer counter drone and other related technology. Included in these intangible assets are internally generated assets of $4,505,763, and externally acquired patents of 2,004,127. The intangible assets are considered to be a Key Audit Matter due to the materiality of the balance and the judgment required in relation to the point at which capitalisation of development costs should commence, as well as the nature of the costs that can be capitalised into the carrying value of these intangible assets. In addition to the matters referred to above consideration needs to be given as to whether there is any impairment risk with regards to the carrying value of these intangible assets.	Our audit procedures in relation to intangible assets included: • Obtained an understanding of the nature of the company's development activities, and critically evaluating management's assessment that they meet the criteria for recognition as an intangible asset set out in AASB 138 Intangible Assets. • Obtained the calculations and supporting workings used to quantify the capitalised development costs and performed substantive testing on a sample basis to obtain assurance that the costs incurred were directly related to the development of the Mesmer Technology. • Tested the additions to the externally acquired patents to external evidence supporting the validity of the transaction. • Considered managements assessment as to whether any impairment indicators exist and evaluated this assessment having consideration of the evidence supplied and any other information gathered as part of the audit process. • Evaluated the appropriateness of the related disclosures in respect of the capitalised development costs including the judgments and estimation uncertainty in relation thereto.
Revenue Recognition ***Refer to Note 1 (d) in the financial statements***	
The revenue recognition and the completeness of the associated deferred revenue was considered a key audit matter due to the nature of the revenue in that the sales of product hardware contains embedded software. The sales contracts can include the sale of equipment, equipment demonstration costs, ongoing maintenance, site surveys, installation, training, and general labour consulting. These sales contracts are treated as multiple-element arrangements. The Company has determined that the software is essential to the functionality of the product as a whole and the sale of the hardware is treated as a non-software deliverable. The sales contracts are allocated to the various components using Management Best Estimate of the Selling Price.	We obtained a detailed understanding of each of the revenue streams and the systems and processes in place for calculating and recording revenue. Our testing of the revenue transactions included, among other things, the following: • Assessing whether the Group's revenue recognition policies in relation to each of the revenue streams was in accordance with the Australian Accounting Standards. • Inspection of sales contracts and other related documents in respect of a sample of transactions to obtain assurance that the revenue was recognised in accordance with the Australian Accounting Standards. • Critically evaluate managements best estimate of the selling price used to determine to allocation of the revenue to the various components of a contract having consideration of the various supply agreements, product pricing, and other historical sales data.

	• Inspection of the deferred revenue listing, confirming it is consistent with the underlying accounting records and supporting calculations
Patent Licence Agreement ***Refer to Note 12 in the financial statements***	
The company entered into an amended and restated patent license agreement with a related party. The agreement allows D13 to secure the right and license to use a portfolio of Patent Rights. The agreement provides for a series of minimum royalty amounts. D13 at its option, may terminate the Agreement by providing Licensor written notice of intent to terminate. The accounting treatment in relation to this transaction is technically complex and requires judgement on the part of management to determine the most appropriate treatment. Management has exercised their judgement in determining that the transaction should be accounted for as a lease of intellectual property in accordance with AASB 117, Leases. In addition, there is significant judgement and estimation uncertainty with regards to determining the expected term of the lease in order to effect the straight lining of the lease payments.	Our testing in relation to the amended and restated patent license transaction included, among other things, the following: • Obtain the original and amended patent license agreements and obtained an understanding of the transaction and the related accounting considerations. • Discussed the transaction with local management and the Board to obtain and understanding of the commercial application of the patents and how the Board concluded the transaction was arm's length. • Obtain the calculations used to determine the patent lease liability and ensured the inputs used and assumptions made were consistent with the agreements and other related documents. • Critically evaluate management's assessment in relation to any impairment considerations having consideration of the evidence supplied and any other information gathered as part of the audit process. • Reviewed any accounting and legal advice obtained by the Company in relation to the transaction and confirm the accounted treatment applied was consistent with the advice obtained. • Obtain the calculations used to determine the minimum lease payments due and ensured the inputs used and assumptions made were consistent with the agreements and other related information gathered during the audit. • Evaluated the appropriateness of the related disclosures in respect of the patent licence transaction.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

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 Company 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 Company 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 the 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 31 to 35 in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Department 13 International Limited., for the year ended 30 June 2018, 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.

RSM

RSM Australia Partners

GNS

G N Sherwood
Partner

Sydney, NSW
Date: 28 September 2018

Spread of Shareholders

At 21 September 2008, there were 1,899 holders of Shares. The shareholders were entitled to one vote for each Share held.

Spread of Holdings	No. of Holders	No. of Units	% of Total Issued Capital
1-1,000	87	6,478	0.001
1,001-5,000	148	633,771	0.117
5,001-10,000	430	3,671,715	0.678
10,001-100,000	865	34,346,744	6.346
100,001-9,999,999,999	369	502,539,894	92.857
Totals	**1,899**	**541,198,602**	**100.000**

There were 188 shareholders holding less than a marketable parcel of 455,378 shares as at 22 September 2017.

Substantial Shareholders

The Company's register of substantial shareholders recorded the information as at 20 September 2018.

Top 20 Holdings as at 20 September 2018		
Holder Name	**Balance at 20 September 2018**	**%**
JONATHAN ANDREW HUNTER	41,600,000	7.687%
ROBI SEN	40,000,000	7.391%
ROGER CHARLES DAVIES	33,200,000	6.135%
PAUL MCCARTHY	30,800,000	5.691%
STEVEN J SHATTIL	20,800,000	3.843%
BRYAN HALFPAP	20,660,000	3.817%
BEN SMITH	20,360,000	3.762%
MS TEN SOO LAN	14,863,221	2.746%
THE SUMMIT HOTEL BONDI BEACH	14,697,758	2.716%
CITICORP NOMINEES PTY LIMITED	13,645,621	2.521%
JINDABYNE CAPITAL PTY LTD	11,000,000	2.033%
HSBC CUSTODY NOMINEES	8,103,867	1.497%
MS IRENE TENG	6,700,000	1.238%
DR STUART LLOYD PHILLIPS &	5,775,000	1.067%
SUMMIT HOTEL BONDI BEACH PTY	5,500,000	1.016%
VANTAGE HOUSE LIMITED	5,250,000	0.970%
FARRIS CORPORATION PTY LTD	5,000,000	0.924%
MISS CONNIE LO LIN SYE	4,937,896	0.912%
GLENEAGLE ASSET MANAGEMENT	4,544,968	0.840%
MR MALCOLM GEOFFREY HERON &	4,300,000	0.795%
Total Securities of Top 20 Holdings	311,738,331	57.601%
Total of Securities	**541,198,602**	

department 13

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