

1 June 2018

ASX RELEASE

Clarification of the Notice under Listing Rule 3.10A

DroneShield Limited (the “**Company**”) is providing a clarification in relation to its notice under Listing Rule 3.10A released to the market yesterday (the “**Notice**”).

The notice referred to the following securities being released from escrow on 22 June 2018: 100,000,001 shares (the “**Escrowed Shares**”), 45,000,000 performance shares (the “**Escrowed Performance Shares**”), and 23,200,000 options (the “**Escrowed Options**”) (collectively, the “**Escrowed Securities**”).

For clarity, none of the Escrowed Securities are newly issued securities, and all of the Escrowed Securities were issued at the time of the Company’s IPO in June 2016, as set out in the Company’s prospectus in relation to the IPO, and have been in existence since that time. The Escrowed Securities are the subject of mandatory escrow for 24 months following the IPO, i.e. they may not be transferred by their holders until 22 June 2018. The release from the ASX escrow means that, pursuant to the ASX Listing Rules, this ASX restriction on transfer no longer applies.

However, the shareholders should note the following in relation to the Escrowed Securities.

The Escrowed Performance Shares

The Escrowed Performance Shares were issued to the Company’s pre-IPO shareholders at the time of the IPO. The Escrowed Performance Shares are effectively rights entitling their holders to be issued the Company’s ordinary shares if certain vesting milestones are met. See the footnote below for a description of these milestones.^[1] It is important to note that (as set out in the Company’s most recently quarterly report) no such vesting milestones have been met. Consequently, while (following the expiration of the escrow) the holders of the Escrowed Performance Shares are free to trade them privately if private demand for these securities exists, the Escrowed Performance Shares cannot at this point be exchanged for ordinary shares in the Company, and are not a class of securities that trades on the ASX. In the event that the vesting conditions in relation to the Escrowed Performance Shares are not met by their deadlines (22 June 2018 for one third of the Escrowed Performance Shares, and 22 June 2019 for the other two thirds) the Escrowed Performance Shares will expire without their holders having the right to exchange them for the Company’s ordinary shares.

The Escrowed Options

The Escrowed Options consist of options that were granted, at the time of the Company’s IPO, to the lead manager of the Company’s IPO, and the Company’s board, management and members of the advisory board (as set out in the Company’s IPO prospectus). They are exercisable, at 22 cents or 30 cents (depending on their class) prior to 22 June 2019. The Escrowed Options are thus currently out of the money. While, following the expiration of the escrow, the holders of the Escrowed Options are free to trade them privately if private demand for these securities exists, the Escrowed Options are not a class of securities that trades on the ASX.

The Escrowed Shares

The Escrowed Shares are the ordinary shares held by the Company’s pre-IPO shareholders at the time of the IPO. Of the 100,000,001 Escrowed Shares, 55,000,001 are held by Long Hill Capital, LLC, an institutional investor that has been a long-term supporter of the Company. While Long Hill is free to trade its shares following the expiration of the escrow, Long Hill has indicated to the Company that it has no plans to exit its investment absent an outright sale of the Company. In fact, since the time of the IPO, Long

Hill has increased its stake in the Company (as set out in the Company's notice of annual general meeting lodged on 27 April 2018). Long Hill has confirmed that it will continue to comply with its substantial shareholder notification obligations, i.e. in the event that its percentage ownership of the Company changes by 1% or more, it will lodge an updated substantial shareholder notice with the Company.

Of the other 50,000,000 Escrowed Shares, an aggregate of 22,600,000 Escrowed Shares are held by several minority pre-IPO shareholders, each of whom is the subject of a contractual limit on sales of their shares following the expiration of the escrow, being 2% of the daily volume of the shares on the ASX on any day on which they may trade.

Additionally, while the pre-IPO shareholders are free to trade their shares following the expiration of the escrow (but subject to the contractual restrictions set out above), some of the other pre-IPO shareholders have also indicated to the Company that they have no intention of divesting of their investment.

[1] Each Class A Performance Share (being one third of the overall number of the Escrowed Performance Shares) will vest into one fully paid ordinary share upon the Company's ordinary shares achieving a 30 day volume weighted average price exceeding \$0.30 and the Company achieving 20 individual installations of the acoustic drone detection system comprising the DroneShield Technology (as defined in the Company's prospectus) prior to 22 June 2018.

Each Class B Performance Share (being one third of the overall number of the Escrowed Performance Shares) will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$7,000,000 of cumulative revenue or \$2,500,000 of annual revenue in any given twelve month period, prior to 22 June 2019.

Each Class C Performance Share (being one third of the overall number of the Escrowed Performance Shares) will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$3,000,000 of cumulative earnings before interest and taxes (EBIT) or \$1,000,000 of annual EBIT in any given financial year, prior to 22 June 2019.

Further Information

Oleg Vornik
CEO and Managing Director
Email: oleg.vornik@droneshield.com
Tel: +61 2 9995 7280

About DroneShield Limited

Based in Sydney, Australia and Virginia, USA, DroneShield is a worldwide leader in drone security technology. The Company has developed the pre-eminent drone security solution that protects people, organisations and critical infrastructure from intrusion from drones. Its leadership brings world-class expertise in engineering and physics, combined with deep experience in defence, intelligence, and aerospace.

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