

1. Company details

Name of entity:	DroneShield Limited
ABN:	26 608 915 859
Reporting period:	For the year ended 31 December 2025
Previous period:	For the year ended 31 December 2024

2. Results for announcement to the market

					\$'000
Revenues from ordinary activities	up	276%	to		216,547
Profit from ordinary activities after tax attributable to the owners of DroneShield Limited	up	367%	to		3,521
Profit for the year attributable to the owners of DroneShield Limited	up	367%	to		3,521

Comments

The profit for the Group after providing for income tax amounted to \$3,521,000 (31 December 2024: loss of \$1,320,000).

3. Net tangible assets

	Reporting period \$	Previous period \$
Net tangible assets per ordinary security	<u>0.33</u>	<u>0.35</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial year.

Previous period

There were no dividends paid, recommended or declared during the previous financial year.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

International Financial Reporting Standards.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unmodified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of DroneShield Limited for the year ended 31 December 2025 is attached.

12. Signed



Signed _____

Date: 25 February 2026

Peter James
Independent Non-Executive Chairman
Sydney NSW



DRONESHIELD

Annual Report

For the Year Ended
31 December 2025



Image: Demonstration of DroneShield's command-and-control (C2) platform, DroneSentry-C2, in Finland

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

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Directors	Peter James (Independent Non-Executive Chairman) Jethro Marks (Independent Non-Executive Director) Richard Joffe (Independent Non-Executive Director) Simone Haslinger (Independent Non-Executive Director) Oleg Vornik (CEO and Managing Director)
Company Secretaries	Carla Balanco Paul Cenoz
Registered office and principal place of business	Level 5 126 Phillip Street Sydney NSW 2000 Australia Telephone: +61 2 9995 7280 Email: info@droneshield.com Website: www.droneshield.com
Share register	Automic Registry Services Level 5, 126 Phillip Street Sydney NSW 2000 Australia Enquiries (within Australia): 1300 288 664 Enquiries (outside Australia): +61 2 9698 5414
Auditor	HLB Mann Judd Assurance (NSW) Pty Ltd Level 5, 10 Shelley Street Sydney NSW 2000 Australia
Solicitors	DLA Piper Level 22 No. 1 Martin Place Sydney NSW 2000 Australia
Bankers	Commonwealth Bank of Australia 309-315 George Street Sydney NSW 2000 Australia Westpac 275 Kent Street Sydney NSW 2000 Australia PNC Bank 1405 P Street, NW Washington DC 20005 United States of America HSBC Bank Australia Limited Level 36, Tower 1, International Towers 100 Barangaroo Avenue Sydney NSW 2000 Australia
Stock exchange listing	DroneShield Limited shares are listed on the Australian Securities Exchange (ASX code: DRO).

Website www.droneshield.com

Corporate Governance Statement The Directors and management are committed to conducting the business of DroneShield Limited in an ethical manner and in accordance with the highest standards of corporate governance. DroneShield Limited has adopted and substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) (**'Recommendations'**) to the extent appropriate to the size and nature of its operations.

The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, was approved by the Board of Directors at the same time as the Annual Report and can be found on the Investor Relations page at www.droneshield.com/investor-relations.

Dear Shareholders,

FY2025 for DroneShield Limited ('DroneShield' or 'the Company') has seen continued momentum, with record results across a range of metrics driven by the fundamentals of counter-drone solutions being adopted by a wide range of customers.

2025 Highlights:

- \$216.5m revenue – 276% increase from FY2024, continuing record revenues each year of our existence.
- \$11.6m SaaS – 312% increase from FY2024, working towards a goal of 30% of revenue in SaaS within 5 years.
- \$3.5m profit after tax – 367% increase from FY2024, demonstrating strong momentum toward sustainable profit outcomes.
- \$33.3m underlying profit before tax – 1,686% increase from FY2024.
- \$210m cash and term deposits as at 31 December 2025 with no debt and three consecutive quarters of positive operating cashflow.
- \$2.3bn sales pipeline of almost 300 opportunities (risk unweighted), 92% increase in last 12 months.
- Strong capability and capability growth, as the global team increased from 250 to over 450 staff, including over 350 hardware and software engineers.
- Scaling of production capacity from \$500m p.a. in 2025 to \$2.4bn p.a. by end of 2026 through new facilities in Australia, the United States and Europe.
- Inclusion of the Company in the S&P/ASX200, and other leading indices including the Mirae Asset Global X Defence Tech Index, the Global X Defence Tech ETF and the MSCI Global Small Cap Asia Pacific Australia Index.

The counter-drone sector continues to experience strong tailwinds, with direct opportunities for DroneShield including:

- Governments around the world continue to scale military budgets, particularly in the area of counter-drone solutions.
- Streamlining of the counter-drone procurement, such as JITAF401 in the US and establishing of more dedicated counter-drone contract vehicles, including the US\$1.5bn for DHS.
- Streamlining of legislation, such as the *Safer Skies Act* in the US (enabling State and Local law enforcement to jam drones down) and the *Defence Amendment (Counter-UXS Measures) Regulations 2025* in Australia, enabling ADF broader powers to take down drones.
- Increasing awareness and planning from commercial customers of the need to protect critical infrastructure and civilian locations from the threat of drone interference.

Sadly, the Ukraine war recently entered its fifth year. While there is expectation of continued sales to Ukraine for DroneShield in 2026, the vast majority of sales are not directly related to this location, and the Company has sales globally with particular focus on United States, Western Europe, Asia-Pacific (excluding China) and South America.

In Australia, DroneShield was included in the LoE3 panel under the LAND156 program and received initial work orders under LoE2. Further afield with the coming launches of DroneShield's US and European local assembly facilities, as well as the ability to offer sovereign versions of its AI software in its next generation of devices, means it will be ideally positioned to meet the production sovereignty focus in key markets. Importantly DroneShield is not significantly exposed to any one customer or single thematic within the US\$63bn counter-drone Total Addressable Market¹. Market saturation for counter-drone continues to be very low in the military markets and almost non-existent in the civilian markets. As one of the longest-standing "pure-play" counter-drone companies in the world, DroneShield has developed a reputation and strategic advantage in its technical and commercial differentiators, and well-positioned for continued significant growth in the future.

FY2026 already has \$104m in secured revenue of which \$22m has been recognised to date. Secured SaaS in FY2026 is at \$22m, of which \$2m has been recognised to date, and SaaS expected to increase further as additional sales are secured. This includes monetising of the RFAI-ATK AI-enabled drone defeat software, the DroneSentry-C2 command and control software and notably the recently released DroneSentry-C2 Enterprise software, providing regional or country-wide counter-drone awareness. DroneShield continues in its leading research and development activities, with the release of the next generation of hardware and software updates scheduled through 2026 and 2027. This is anticipated to further boost demand and conversion to sales.

Following inclusion into the S&P/ASX 200 Index in September 2025 and subsequent market feedback, DroneShield has begun actively enhancing its corporate governance framework towards market best practice. The details of a new Minimum

¹ <https://www.dronesshield.com/media/press-releases/dronesshield-2025tam>

Shareholding Policy for senior executives and the Board were announced in December 2025, and updates to the Company's Share Trading Policy and Continuous Disclosure Policy were also foreshadowed. The changes arising from this corporate governance review have now been implemented, as recently announced to the market. There are also plans to add an additional Director to our Board.

I would like to sincerely thank our executive team for their significant contributions during the past year of record milestones, and shareholders for their support through this journey.

Peter James
Independent Non-Executive Chairman



About DroneShield

DroneShield Limited (ASX:DRO) provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. We offer customers counter-drone ('C-UxS') solutions designed to suit a variety of terrestrial, maritime or airborne platforms. Our customers include military, intelligence community, government, law enforcement, airports and other critical infrastructure locations. DroneShield Limited is the only publicly listed Company globally with pure-play exposure to, and focus on, the rapidly growing counter-drone sector.

History of DroneShield

Founded on 10 January 2014, the business began as DroneShield LLC in the United States. In November 2015, DroneShield Limited ('DroneShield') was incorporated in Australia for the primary purpose of listing on the Australian Securities Exchange ('ASX') and engaging in the business of offering products manufactured by DroneShield globally, as well as managing and operating the business. DroneShield listed on the ASX in June 2016, raising \$7m on a \$20m valuation in an oversubscribed initial public offer. During its time as a listed company DroneShield has raised a total of \$314m in capital. DroneShield has grown from a small start-up to a global leader in C-UxS detection and mitigation.

Business Model and Products

Affordable aerial, ground and water-based consumer-grade drones ('UxS') have become popular around the world. However they present unique and frequent threats to privacy, physical security and public safety in a wide variety of environments. DroneShield has an array of products that detect and defeat such drones. DroneShield's distribution channels focus on third party distributors, as well as direct relationships with various key customers. With on the ground presence across Australia, the United States, Europe, South America and Middle East, DroneShield has an experienced salesforce with distribution partners across over 70 countries. The end-users of DroneShield's products come from a diverse array of global sectors, including the following:

- defence and intelligence agencies;
- airports, ports, prisons, data centres and other critical infrastructure;
- utilities such as power plants, electricity grids and gas pipelines;
- intelligence and national security agencies;
- stadiums and other public event venues and organisers; and
- assets owners including shopping centres, commercial offices, media production sites, agricultural and manufacturing plants.

DroneShield offers a comprehensive solution to drone threats with a suite of detection and mitigation products. The main product range is as follows:

- **RfPatrol:** body-worn drone detector, with SaaS AI based RFAI quarterly software (43% of 2025 sales);
- **DroneSentry:** multi-sensor on-the-move (OTM) and fixed site detection and defeat C-UxS system, including DroneShield own hardware and SaaS AI software (including DroneSentry-X and DroneSentry-C2), as well as third party products such as radars and cameras, in certain deployments (38% of 2025 sales); and
- **DroneGun:** handheld drone jammer (19% of 2025 sales).

DroneShield has leading research and development engineers who are working on next generation technologies to be released throughout 2026 and 2027 as the drone and C-UxS technology spaces continue to rapidly evolve.

In addition to the C-UxS work, DroneShield was awarded a follow on 2-year R&D Electronic Warfare contract with a total value of \$11.7 million excluding GST by the Australian Defence Force in mid-2025, of which \$5.8m was received in FY2025.

Defence and Government agency markets are typically of a recurring nature, whereby repeat contracts follow initial successful deployments. DroneShield has received repeat customer orders globally on that basis.

Revenue Streams

The Company has 4 revenue streams:

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

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the '**Group**') consisting of DroneShield Limited (referred to hereafter as the '**Company**' or '**parent entity**' or '**DroneShield**') and the entities it controlled at the end of, or during, the year ended 31 December 2025.

Directors

The following persons were Directors of DroneShield Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter James	Independent Non-Executive Chairman
Jethro Marks	Independent Non-Executive Director
Richard Joffe	Independent Non-Executive Director
Simone Haslinger	Independent Non-Executive Director
Oleg Vornik	CEO and Managing Director

Principal activities

The principal activity of the Company is the development, commercialisation and sales of counterdrone hardware and software technology.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Material business risks

DroneShield operates in a dynamic environment and is exposed to a range of material risks that may affect its operational and financial performance, strategic objectives and long-term sustainability. The Board is responsible for overseeing the Company's risk management framework and ensuring that material risks are identified, monitored and managed in accordance with the Company's Risk Management and Compliance Policy.

The Company operates in a technology-intensive sector that requires ongoing product innovation, with associated risks relating to research and development execution, technological change and product performance. As the Company's products are subject to extensive regulation and export controls in Australia, the United States and other jurisdictions, changes to regulatory settings or delays in obtaining export approvals may impact expected sales timelines. Supply chain risks arise from reliance on a limited number of key manufacturing partners, where capacity constraints or operational disruption may affect timely product delivery.

A significant portion of the Company's revenue is derived from contracts with government agencies in Australia, the United States and other jurisdictions. These arrangements may be modified, reduced or terminated as a result of changes in budget priorities, procurement processes or compliance reviews. Cybersecurity remains an ongoing risk, with cyber incidents or data breaches having the potential to disrupt operations, compromise sensitive information or affect customer confidence.

The Company also operates across multiple jurisdictions with differing accounting standards, tax frameworks and regulatory requirements. Changes in relevant laws or interpretations may increase compliance obligations or impact reported financial results.

Future climate reporting obligations

AASB S2 'Climate-related Disclosures' sets out specific climate related disclosures. It applies to entities required to prepare and lodge a financial report with ASIC under Chapter 2M and is effective for different entities based on certain criteria. This mandatory sustainability reporting may be applicable for the Company for the first time for the year ending 31 December 2026.

Review of operations and financial results

Please refer to the Chairman's review on page 4 for the review of operations.

Financial Highlights

DroneShield has achieved all-time record results in FY2025 across several key metrics: revenue of \$216.5 million, customer cash receipts of \$201.6 million, and profit after tax of \$3.5 million. This reflecting the strength of DroneShield's product portfolio, the growing global appetite for the Company's solutions and its position as a global pioneer at the forefront of counter-drone technology.

Metric	FY2025	FY2024	Change
Revenue	\$216.5m	\$57.5m	276%
Customer Cash receipts	\$201.6m	\$56.6m	256%
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	\$4.5m	(\$8.6m)	153%
Underlying EBITDA	\$36.5m	(\$4.0m)	1,013%
Underlying profit before tax	\$33.3m	(\$2.1m)	1,686%
Profit/(loss) after tax	\$3.5m	(\$1.3m)	367%
Operational cashflow	\$15.9m	(\$62.20m)	126%
Cash and term deposits	\$209.5m	\$219.5m	(4%)

To assist shareholders in understanding the Company's core operating performance, the Board also considers Underlying earnings before interest, tax, depreciation and amortisation ('**Underlying EBITDA**') and Underlying profit before tax ('**Underlying PBT**') as measures that remove the impact of non-cash, individual significant and non-operational items. This approach provides a clearer view of underlying profitability from core operations. For FY2025 this comprised of non-cash share-based payment expense of \$23.5 million and an inventory impairment of \$8.5 million relating to earlier model finished goods.



The following tables reconcile statutory profit/(loss) after tax of \$3.5 million to Underlying EBITDA of \$36.5 million and Underlying PBT of \$33.3 million, highlighting the key adjustments made to arrive at these underlying results. The strong Underlying EBITDA and Underlying PBT reflects sustained scaling, improving profitability and strengthening market position.

	Consolidated	
	2025 \$'000	2024 \$'000
Underlying EBITDA		
Statutory profit/(loss) after income tax	3,521	(1,320)
Less: Income tax benefit	(2,270)	(5,466)
Add: Interest expense	633	459
Less: Interest income	(7,966)	(5,913)
Add: Depreciation	8,307	3,349
Add: Amortisation	2,272	268
EBITDA	4,497	(8,623)
Add: Share-based payment expense	23,511	4,647
Add: Inventory impairment - finished goods	8,500	-
Underlying EBITDA	36,508	(3,976)
Underlying profit/(loss) before income tax		
Statutory profit/(loss) after income tax	3,521	(1,320)
Less: Income tax benefit	(2,270)	(5,466)
Statutory profit/(loss) before income tax ('PBT')	1,251	(6,786)
Add: Share-based payment expense	23,511	4,647
Add: Inventory impairment - finished goods	8,500	-
Underlying PBT	33,262	(2,139)

2025 Share Based Payment Expense

In FY2025, the non-cash share-based payment expense of \$23.5 million was unusually high (FY2024 share-based expense: \$4.6 million). This was due to several tranches of performance options vesting in a short amount of time, due to the rapid growth of the Company and achievement of performance milestones. Moving forward, with the removal of "cliff vesting" and the next tranche of performance options having staggered targets of \$300 million, \$400 million and \$500 million revenue (or cash receipts), with a two-stage vesting schedule attaching to each target (50 percent at achievement of milestone and 50 percent 12 months later), the share-based payment profile is expected to be more gradual over future periods. Additionally, as the Company continues to grow, it is anticipated compensation will continue to be more cash, and less equity based (while still with an equity component), in line with the stage of maturity of the business.

Inventory Adjustments and Readiness

Closing inventory book value as at 31 December 2025 was \$78.9m, comprising completed units and raw materials input componentry. The Company's inventory strategy is shaped with consideration to the lead times on certain products due to their sophistication, balanced by the expedited requirements on the customer side.

The Company launched the DroneGun Mk4 in April 2023, with the new model experiencing rapid market adoption and absorbing a significant portion of demand previously directed toward earlier model DroneGuns. While the earlier models continue to generate sales, demand is now expected to progress at a slower rate than earlier anticipated, reflecting the strong customer preference for the DroneGun Mk4.

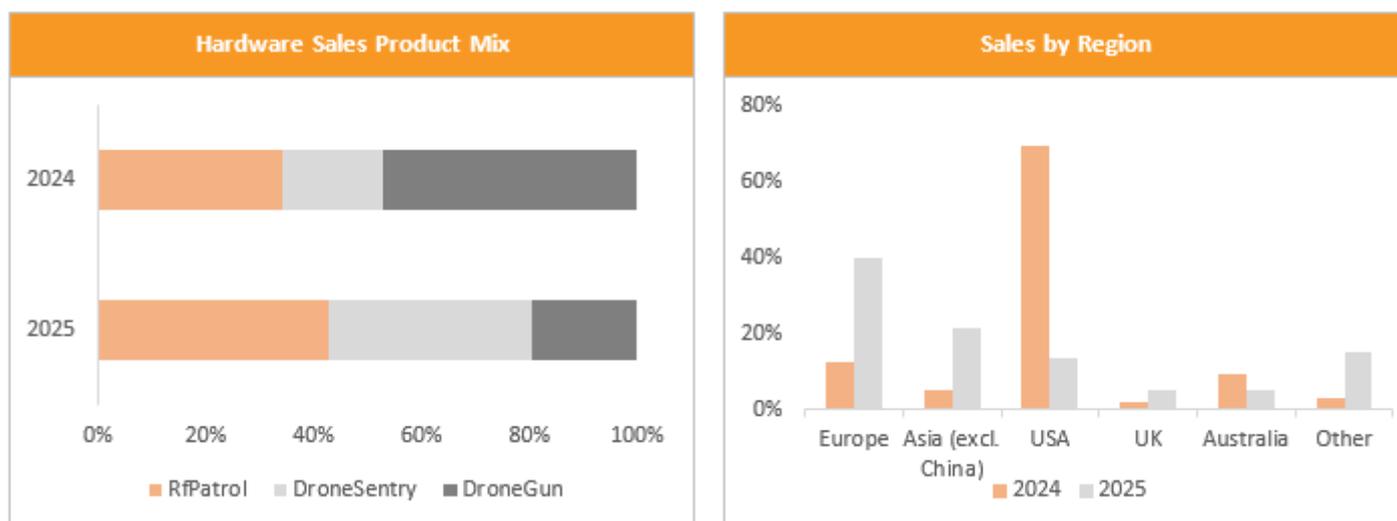
In parallel with this product transition, the Company undertook a broader operational transformation, including the implementation of a large-scale enterprise resource planning ('ERP') system and the relocation of Australian manufacturing activities to new facilities. As part of this process, a comprehensive review of all inventory holdings was completed in January 2026. This review resulted in a reassessment of certain inventory items and the recognition of a non-cash impairment charge of \$10.3 million in FY2025 (FY2024: \$0.6 million), comprising \$1.8 million in raw materials and \$8.5 million in finished goods. The finished goods impairment (which has been added back to Underlying EBITDA and PBT) primarily relates to earlier model DroneGun units manufactured in line with the anticipated order pipeline at that time.

Rapid Delivery of Larger Contracts and a Strong Start to 2026

In June 2025, the Company secured its largest contract to date, valued at \$61.6 million, which was delivered within approximately two months of the order. Against this backdrop, and supported by rising demand for C-UxS solutions across military, government, law enforcement and critical infrastructure sectors, the Company commenced FY2026 with an exceptional \$103.5 million in committed revenue, comprising:

- \$22.4m in recorded revenue to date;
- \$22.2m in secured SaaS revenue;
- confirmed purchase orders scheduled for delivery in FY2026; and
- deferred revenue from warranties.

Increasing Geographical & Product Diversification



The revenue mix in 2025 has continued to diversify further away from DroneGun sales, with RfPatrol and DroneSentry becoming substantial revenue drivers. The geographic diversity has shifted from substantially US-focused (2025: 14% vs 2024: 69%), to substantially more diverse, with Europe being the largest segment in 2025 (40%).

SaaS revenue was 4.9% of total revenue in FY2025, with an increasing range of SaaS offerings across the Company's RFAI, RFAI-ATK, DroneSentry-C2, DroneSentry-C2E and SentryCiv ranges. The next generation of hardware and software offerings scheduled for releases in 2026 and 2027 are expected to continue the increase in product diversification and contribution from SaaS. The Company has a vision of 30% or more in SaaS revenue within 5 years. There are also early indications from customers of interest to moving towards C-UxS-as-a-Service model.

Cash Flow & Liquidity: Strength and Stability

As of 31 December 2025, cash and term deposits totalled \$209.5 million. The Company has no debt. The net operating cash inflow was \$15.9 million, a marked improvement from outflow of \$62.2 million in the prior period, driven by higher customer receipts and improved working capital efficiency.

The Company employs a tiered payment structure to optimise cash flow and effectively manage credit risk. Tier 1 customers, recognised for their strategic importance and strong credit profiles, are granted standard 30-day payment terms from the date of delivery, as customary in the defence industry. For non-Tier 1 customers, payment terms are tailored to individual agreements and may include partial or full upfront payments, depending on factors such as risk assessment, order volume, and historical payment behaviour. To date the Company has not used any form of currency hedging, noting that it operates across a range of currencies including United States dollars and Euro, while all financial reporting is in Australian dollars.

AI-based Product & Technology Strategy

The Company continues to advance its portfolio of AI-driven solutions, reinforcing its leadership in intelligent threat detection and response. Key developments include enhancements to the **RFAI-2** detection model, which remains a strong performer and is scheduled for a major update in April 2026 to expand the range of detectable drone emission formats. Progress also continues on **RFAI-3**, the next-generation AI drone detection model, slated for launch in mid-2026. This upgrade will deliver substantial improvements in performance, advanced capabilities, and greater customization options for end users.

In parallel, the Company is preparing a significant software update for **RFAI-ATK**, its electronic defeat model, which will introduce targeted threat engagement capabilities, which is currently trialling on DroneSentry-X units, and is expected to commence as a paid offering in mid 2026, initially on DroneSentry-X units, followed by next-gen drone defeat products when released, expecting prior 2026 year end. The **DroneSentry-C2** platform will also benefit from updates to the **SFAI** (Sensor Fusion AI Engine) and **DroneOptiD** (AI-based Computer Vision Classifier and Optical Tracker) issued in the final quarter of 2025, further enhancing situational awareness and automated threat classification.

SaaS subscriptions continue to provide customers with access to advanced features while contributing to the Company's growing recurring revenue stream. Currently, there over 3,000 AI-enabled devices with active subscriptions which receive quarterly software updates via the secure DroneShield Access Portal.

Complementing its software innovation, DroneShield executed **iterative hardware upgrades** across its three primary platforms, RfPatrol, DroneGun, and DroneSentry-X, during 1H2025. These enhancements were made possible through the Company's vertically integrated engineering and manufacturing strategy, enabling rapid response to evolving end user requirements. The Company will be launching several next generation hardware products in second half of 2026 and 2027.

Strategic Investments & Operational Scale

DroneShield continues to invest in the infrastructure, systems, and capabilities required to support its accelerated growth trajectory. A key component of this strategy is the expansion of manufacturing capacity through contract manufacturing arrangements, which significantly reduce upfront capital requirements and ongoing operating costs while enabling substantial increases in production output.

- Manufacturing capacity is being scaled from approximately \$500 million to \$2.4 billion per annum (based on product sales value) by the end of 2026, with production capability established across Australia, Europe, and the United States.
- The Company has expanded its workforce from 250 employees at the end of FY2024 to approaching 500 today, with continued growth across engineering, sales, and operations to support the next phase of organisational scale.
- A large-scale CRM and ERP platform has now been implemented, providing an integrated enterprise backbone that enhances operational visibility, strengthens customer engagement, and supports efficient global scaling.

DroneShield's sustained investment in scalable technology platforms, enterprise systems, global partnerships, and customer-driven innovation positions the Group for long-term growth and continued leadership in the counter-drone sector.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 23 January 2026 a total of 9,224,361 Performance Options with various expiry dates vested following the Company achieving the milestone of \$200 million in cash receipts within a rolling 12-month period.

The vesting of these options represents a non-adjusting event. As a result, the remaining unrecognised share-based payment expense associated with these options will be recognised in the 2026 financial year. There is no impact on the Group's financial position as at 31 December 2025.

No other matter or circumstance has arisen since 31 December 2025 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of those operations in subsequent financial years have been discussed where appropriate in the operating and financial review.

Information on Directors

<p>Name: Title: Qualifications: Experience and expertise: Other current directorships: Former directorships (last 3 years): Special responsibilities: Interests in shares: Interests in options:</p>	<p>Peter James Independent Non-Executive Chairman BA degree with Majors in Business and Computer Science Fellow of the Australian Institute of Company Directors Fellow of the Australian Computer Society Mr. James has over 30 years' experience in the Technology, Telecommunications and Media Industries, and has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. Mr. James is an experienced business leader with significant strategic and operational expertise. Mr. James joined the Board of DroneShield on 1 April 2016. Macquarie Technology Group (ASX:MAQ) Ansarada Group (ASX:AND), Nearmap (ASX:NEA), Halo Food Co. (ASX:HLF) Chairman of People, Culture and Remuneration Committee, member of Audit and Risk Committee None 250,000 vested options</p>
<p>Name: Title: Qualifications: Experience and expertise: Other current directorships: Former directorships (last 3 years): Special responsibilities: Interests in shares: Interests in options:</p>	<p>Jethro Marks Independent Non-Executive Director Bachelor of Commerce (Honours), GAICD Mr. Marks is a Sydney-based Chief Executive Officer (CEO) and co-founder of The Nile Group, an eCommerce retail, services, logistics and outsourcing business. Over 17 years Mr. Marks has led, and continuously grown, the business at the forefront of digital commerce, marketing and international logistics, while competing with the largest retailers globally. Mr. Marks brings to the Board extensive commercial experience in successfully scaling a multinational business. The Nile Group's global supply chain and award-winning logistics capability has extended to most consumer goods categories in multiple countries, and today carries 32 million products. This capability has extended to provisioning international logistics support to multinational brands and technology companies. Mr. Marks joined the Board on 16 January 2020. None None Chairman of Audit and Risk Committee, member of People, Culture and Remuneration Committee None 40,000 vested options</p>
<p>Name: Title: Qualifications: Experience and expertise: Other current directorships: Former directorships (last 3 years): Special responsibilities: Interests in shares: Interests in options:</p>	<p>Richard Joffe Independent Non-Executive Director Business Management degree from Ivey Business School at Western University, Canada Mr. Joffe brings significant experience in technology, strategy and rapid scaling globally and has a successful track record in the United States of founding and building technology-based companies across a range of industries. Mr. Joffe moved from San Francisco to Sydney in 2019 and is currently the Founder and CEO of Honey Insurance which launched in 2021 and has been rated the 6th fastest growing technology company in Australia. Mr. Joffe commenced his business career as a consultant with McKinsey and an investment banker with Morgan Stanley, both focused on the technology sector. Mr. Joffe joined the Board on 9 October 2024. None None Member of People, Culture and Remuneration Committee, member of Audit and Risk Committee None None</p>

Name:	Simone Haslinger
Title:	Independent Non-Executive Director
Qualifications:	Bachelor of Commerce and Bachelor of Laws from University of New South Wales
Experience and expertise:	Ms. Haslinger brings 20 years' investment banking experience, where she provided strategic and capital advice to a diverse range of clients. Ms. Haslinger's most recent role was Co-Head of Equity Capital Markets (Australia) for J.P. Morgan, and she was also previously an Equity Capital Markets executive at Deutsche Bank. Ms. Haslinger joined the Board on 9 October 2024.
Other current directorships:	National Storage REIT (ASX:NSR)
Former directorships (last 3 years):	None
Special responsibilities:	Member of People, Culture and Remuneration Committee, member of Audit and Risk Committee
Interests in shares:	None
Interests in options:	None

Name:	Oleg Vornik
Title:	CEO and Managing Director
Qualifications:	BSc (Mathematics) and BCom (Hons) from the University of Canterbury, New Zealand
Experience and expertise:	Mr. Vornik is an experienced senior executive with previous roles at the Royal Bank of Canada, Brookfield, Deutsche Bank and ABN AMRO. Prior to becoming the Chief Executive Officer (CEO) of DroneShield, Mr. Vornik was its Chief Financial Officer (CFO). Mr. Vornik has completed a business program with Columbia University in New York. After co-leading the Company in the role of the CFO for over a year, Mr. Vornik was appointed as the CEO and Managing Director of DroneShield on 24 January 2017.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	None
Interests in options:	902,528 vested options

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company Secretaries

Carla Balanco and Paul Cenoz are the Joint Company Secretaries of the Company.

Patricia Vanni of Automic Group resigned as DroneShield Joint Company Secretary on 11 March 2025.

Mrs. Carla Balanco joined DroneShield in 2018. She is a member of Chartered Accountants Australia and New Zealand (CA ANZ). She holds an Honours degree in Accounting from the University of Johannesburg and an Honours degree in Accounting Science from the University of South Africa. Mrs. Balanco began her career in the audit divisions of Chartered firms Crowe Horwath and HLB Mann Judd, before moving into commercial and business development roles to broaden her industry experience.

Mr. Cenoz joined DroneShield in 2023. He is admitted to practice law in California and New South Wales (NSW). Mr. Cenoz previously worked as a solicitor with MurdockCheng Legal Practice in Melbourne, and as an attorney with Cox Wootton Lerner in Los Angeles. Prior to DroneShield, he was Chief Operating Officer (COO) and General Counsel for OSINT Combine, facilitating a successful exit to Alpine Software Group. In 2014, Mr. Cenoz co-founded Morning Consult, a market research and media company in Washington, DC. After moving to Australia, he co-founded the North American Australian Lawyers Alliance (NAALA) in February 2019, an organisation focused on creating a community to support strong ties between North America and Australia.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board Committee held during the year ended 31 December 2025, and the number of meetings attended by each Director were:

	Full Board		People, Culture and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Peter James	12	12	3	3	3	3
Jethro Marks	12	12	3	3	3	3
Richard Joffe	12	12	3	3	3	3
Simone Haslinger	12	12	3	3	3	3
Oleg Vornik	12	12	-	-	-	-

Held: represents the number of meetings held during the time the Director held office.

Options

Option class	Grant date	Expiry date	Exercise price	Number of options
Y	11/01/2022 - 19/01/2022	12/01/2027	\$0.25	250,000
AG	14/02/2024 - 15/02/2024	16/02/2027	\$0.76	19,000
Performance options 2024	15/01/2024 - 17/12/2024	29/04/2027 - 31/12/2029	\$0.00	6,373,167
Performance options 2025	31/01/2025 - 26/06/2025	31/03/2028 - 31/03/2030	\$0.00	10,674,361
				17,316,528

Shares issued on the exercise of options

Option class	Grant date	Exercise price	Number of shares issued
Y	05/01/2022 - 19/01/2022	\$0.25	500,000
AA	16/06/2022 - 03/08/2022	\$0.30	325,000
AC	18/04/2023 - 20/04/2023	\$0.35	515,000
AE	03/11/2023 - 22/12/2023	\$0.40	200,000
AG	14/02/2024 - 15/02/2024	\$0.76	500,000
AH	26/03/2024	\$0.80	20,000
Performance options 2024	15/01/2024 - 17/12/2024	\$0.00	44,806,833
			46,866,833

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of HLB Mann Judd Assurance (NSW) Pty Ltd

There are no officers of the Company who are former partners of HLB Mann Judd Assurance (NSW) Pty Ltd.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

2025 Remuneration report (audited)

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The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2021.

1. Chair of the People, Culture and Remuneration Committee Letter

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the financial year ended 31 December 2025.

Overview

FY2025 represented a year of significant growth and operational progress for the Company, delivering a step-change in scale, profitability, and shareholder value creation.

Group revenue increased to \$216.5 million, up from \$57.5 million in FY2024, representing growth of 276% year-on-year and a four-year revenue Compound Annual Growth Rate (CAGR) of 113% since FY2021. This performance reflects the successful execution of our strategy and the continued scaling of our operations across core markets.

The Company recorded EBITDA of \$4.5 million, a significant turnaround from the \$(8.6) million result in FY2024, and delivered NPAT of \$5.1 million compared with \$(1.3) million in the prior year.

Operational quality also improved, with operating cash flow increasing to \$15.9 million, up from \$(62.2) million in FY2024. The unweighted sales pipeline expanded to \$2.3 billion, up 92% year-on-year, demonstrating growing demand and strengthening commercial execution.

The Company's share price ended FY2025 at \$3.08, representing increases of:

- 303% over one year (FY2024: \$0.765);
- 732% over two years (FY2023: \$0.370);
- 1,269% over three years (FY2022: \$0.225); and
- 1,660% over four years (FY2021: \$0.175).

This growth reflects both the significant operational progress achieved and the market's increasing confidence in the Company's long-term prospects.

Short-Term Incentive (STI) Outcomes for FY2025

The FY2025 STI was intentionally focused on financial performance to support the Company's transition to sustainable profitability. Following a rigorous assessment:

- Revenue significantly exceeded target, with the Company reporting \$216.5 million against a target of \$107 million; and
- EBITDA was positive, meaning no reduction to STI outcomes was required.

Given the Company's return to profitability, the substantial uplift in revenue, the strengthening of operating cash flows, and the material expansion of the sales pipeline, the Board considers STI outcomes for FY2025 to be appropriate, fully performance-aligned, and reflective of value created for shareholders. These outcomes reflect sustained scaling, improving profitability, strengthening market position, and very strong shareholder returns.

Long-Term Incentive (LTI) Outcomes for FY2025

The FY2025 LTI comprised three-year zero-exercise-price Performance Options, subject to achieving \$200 million in revenue or cash receipts within a rolling 12-month period, independently verified by the external auditor. This milestone was met during FY2025, and the award vested in full in January 2026.

Under the FY2025 award, the CEO was eligible for Performance Options valued at up to \$850,000 (based on the five-day VWAP prior to the AGM), and the CFO received 450,000 Options. Standard malus and clawback provisions apply, and shareholder approval was obtained for the CEO grant in accordance with ASX requirements.

Governance and Looking Ahead

The People, Culture and Remuneration Committee remains focused on ensuring that the Company's remuneration framework:

- drives performance;
- aligns with shareholder outcomes;
- support prudent risk management; and
- attracts and retains high-calibre talent.

On 22 December 2025, the Company announced to the ASX an update on its Corporate Governance review, including the introduction of a Minimum Shareholding Policy ('**MSP**') for Directors and senior management. The MSP has now been adopted and requires that, within three years, Non-Executive Directors hold shares equivalent to 100% of annual base fees, the CEO holds shares equivalent to 200% of annual fixed remuneration, and the CFO and other executives hold shares equivalent to 50% of annual fixed remuneration. This policy is designed to further strengthen long-term alignment between the leadership team and shareholders.

Closing

On behalf of the Board, I thank our shareholders for their continued support. FY2025 was a pivotal year, and the results achieved reflect the dedication and capability of our people. The Board remains committed to maintaining a remuneration framework that incentivises and rewards genuine performance and supports long-term value creation and shareholder alignment.

Yours sincerely,
Peter James
Chair, People, Culture and Remuneration Committee
DroneShield Limited

2. Key Management Personnel

This Remuneration Report details DroneShield's remuneration framework and outcomes for its Key Management Personnel ('**KMP**'), responsible for overseeing the planning, direction and control of DroneShield's operations. At DroneShield, KMP consists of the Directors (including the Chief Executive Officer), and the Chief Financial Officer.

Name	Position	Effective date
Non-executive Directors		
Peter James	Independent Non-Executive Chairman	- Appointed as Independent Non-Executive Chairman 1 April 2016 - Served as Executive Chairman from 2 December 2016 - Returned to Independent Non-Executive Chairman 24 January 2017
Jethro Marks	Independent Non-Executive Director	- Appointed 16 January 2020
Richard Joffe	Independent Non-Executive Director	- Appointed 9 October 2024
Simone Haslinger	Independent Non-Executive Director	- Appointed 9 October 2024
Executive Director		
Oleg Vornik	CEO and Managing Director	- Appointed as CEO and Managing Director 24 January 2017
Other Executive		
Carla Balanco	Chief Financial Officer and Joint Company Secretary	- Appointed as CFO 5 August 2019

3. Company Performance

The Board recognises the importance of linking remuneration outcomes to sustained, demonstrable performance. Key indicators over FY2021–FY2025 highlight the Company's growth trajectory:

Metric	FY2025	FY2024	FY2023	FY2022	FY2021
Revenue(\$m)	216.5	57.5	54.1	16.8	10.5
EBITDA (\$m)	4.5	(8.6)	3.7	(1.9)	(5.9)
NPAT (\$m)	\$3.5	(1.3)	9.3	(0.9)	(5.3)
EPS (Statutory) (cps)	0.004	(0.002)	0.020	(0.002)	(0.013)
Operational cashflow (\$m)	15.9	(62.2)	9.4	(1.8)	(6.3)
Unweighted Sales Pipeline	\$2.3bn	\$1.2bn	\$400m	\$200m	\$100m
Underlying PBT (\$m)	33.3	2.1	8.5	3.6	(5.2)
Underlying EBITDA (\$m)	36.5	(4.0)	9	(1.2)	(4.75)
Share Price (\$)	3.080	0.765	0.370	0.225	0.175

No dividends were paid during the five-year period.

4. Executive Remuneration Framework

DroneShield's reward policy aims to align executive remuneration with shareholder interests and retain appropriately qualified talent. Core principles are:

- Remuneration is reasonable and fair, reflecting legal obligations, competitive talent markets and the Company's size and scale;
- Rewards are linked clear performance targets aligned to short term and long-term objectives (pay for performance alignment); and
- Executives are incentivised and rewarded for both financial and non-financial performance.

Independent external advice was obtained during FY2025 to ensure Executive KMP remuneration remains market competitive, including having regard to relevant local and global talent markets. The existing pay arrangements (fixed and variable pay) were benchmarked against corresponding positions within a combined ASX and global peer group of broadly comparable organisations (with respect to size, sector/industry classification and nature of business operations/stage). A supplementary position evaluation perspective was also considered.

4.1 Total Remuneration Mix

The maximum total remuneration opportunity available for Executive KMP in FY2026 comprises fixed remuneration (plus superannuation) and a Short-Term Incentive (STI) and Long-Term Incentive (LTI) that aligns pay with performance and shareholder outcomes. The graph below illustrates the total FY2026 Executive KMP maximum remuneration mix:

Metric	Fixed remuneration	Maximum STI Opportunity	Maximum LTI Opportunity
CEO	\$850,000 (25.0%)	\$850,000 (25.0%)	\$1,700,000 (50.0%)
CFO	\$500,000 (38.5%)	\$250,000 (19.2%)	\$550,000 (42.3%)

4.2 Fixed Remuneration

Fixed remuneration (base salary, excluding superannuation) is reviewed annually, set with regard to local and global market benchmarks, role responsibilities, expertise, internal relativities and market conditions, recognising the scarcity of local talent within a niche, highly regulated and rapidly growing sector.

The following table provides the annual fixed remuneration for Executive KMP from FY2025 to FY2026:

Executive KMP	Position	FY2026	FY2025
Oleg Vornik	CEO and Managing Director	\$850,000	\$850,000
Carla Balanco	CFO and Joint Company Secretary	\$500,000	\$475,000

4.3 Short Term Incentive (STI) plan

The Board uses the Short-Term Incentive plan to reinforce the annual priorities that underpin the Company's longer-term strategy. The STI framework is designed to reward executives for delivering sustainable, profitable growth in the year, while maintaining clear alignment with shareholder value.

FY2025 STI

For FY2025, the STI was weighted towards revenue growth, reflecting the Company's phase of rapid commercial scaling, with an EBITDA modifier in place to incentivise responsible growth delivered with appropriate financial discipline.

The CEO and CFO were eligible to earn a Maximum STI opportunity of \$850,000 and \$225,000 respectively, with outcomes assessed entirely in cash. Performance was determined by audited revenue and EBITDA for the year ended 31 December 2025. The plan also included standard eligibility provisions, whereby awards are forfeited on cessation of employment prior to payment unless the Board determines otherwise. Clawback provisions apply in the event of serious misconduct, fraud or unlawful behaviour.

FY2025 STI performance and outcomes

FY2025 was a strong operational year, with revenue reaching \$216.5 million, significantly ahead of the target of \$107 million set at the beginning of the performance period. This reflected both successful execution against strategic contracts and the continued scalability of the operating model. EBITDA for the year was positive, reflecting revenue growth that was supported by operational efficiency.

As a result, both the CEO and CFO achieved 100% of their maximum STI opportunity for FY2025.

Metric	Target (\$m)	Actual (\$m)	Vesting (%)
Revenue	\$100m	\$216.5m	100 % (of maximum)
EBITDA (modifier)	Positive EBITDA was achieved. No reduction to STI outcomes.		

Proportion of cash bonus (STI) paid/payable or forfeited

Executive KMP	STI Maximum Opportunity	STI Awarded	% of Maximum Awarded	% Forfeited
Oleg Vornik	\$850,000	\$850,000	100%	0%
Carla Balanco	\$225,000	\$225,000	100%	0%

FY2026 STI

For FY2026, the Board intends to maintain overall continuity in the structure of the STI plan, with the same maximum opportunity levels for the CEO (\$850,000) and a modest increase for the CFO (\$250,000). Metrics will remain broadly aligned to those applied in FY2025, ensuring consistency of focus and investor transparency. However, given the material uplift in the Company's revenue base, the Board proposes a more demanding revenue target to reflect the next stage of scale. The current EBITDA modifier will also be enhanced to further reinforce sustainable revenue growth. Non-financial performance objectives and threshold behavioural/conduct standards have been incorporated within the STI framework. The Board remains committed to ongoing review of the STI framework, having regard to relevant market practice and the objective of ensuring STI outcomes reflect and reward performance and behaviour that underpin long-term shareholder value creation.

4.4 Long -Term Incentive (LTI) plan

The Long-Term Incentive plan is the Board's primary mechanism to align executive remuneration with long-term value creation. The structure is designed to encourage the delivery of scalable, sustainable growth, ensuring executives are rewarded only when shareholders benefit over the long term (reinforcing pay for performance and shareholder alignment).

FY2025 LTI

The FY2025 award comprised three-year Performance Options with a zero-exercise price. Vesting was subject to the Company achieving \$200 million in revenue or cash receipts within a rolling 12-month period, independently verified by the external auditor. This hurdle represented a significant step in the Company's growth trajectory and provided a clear, objective milestone for long-term value creation.

During FY2025, the Company successfully met this performance hurdle, supported by strong commercial execution and accelerating operating scale. As a result, the FY2025 Performance Options vested in full in January 2026. This outcome reflects the Company's achievement of a major strategic milestone and reinforces the alignment between executive incentives and shareholder outcomes.

Under the FY2025 structure, the CEO was eligible to receive Performance Options valued at up to \$850,000 (based on the five-day VWAP prior to the AGM), while the CFO received an allocation of 450,000 Performance Options. Clawback provisions apply in cases of misconduct, fraud or unlawful behaviour, and shareholder approval for the CEO award was sought in accordance with ASX requirements.

FY2026 LTI (proposed)

For FY2026, the Board is proposing an expanded LTI framework that reflects the Company's increased scale and longer-term ambitions. The proposed maximum opportunity is \$1,700,000 for the CEO and \$550,000 for the CFO.

The FY2026 LTI is structured around three equal tranches, each vesting upon the achievement of increasingly ambitious revenue or cash-receipt milestones within a rolling 12-month period. These hurdles are set at \$300 million, \$400 million, and \$500 million, representing step-change growth milestones aligned with the Company's strategic roadmap. On achievement of each hurdle, one-half of the options will vest and be exercisable, with the remaining one-half vesting conditional on continued employment for an additional 12-month period (reinforcing executive retention).

The Board is committed to ensuring the LTI framework continues to evolve as the Company grows and will proactively assess opportunities to refine the existing award structure and accompanying performance assessment framework (including alternate performance measures and associated vesting schedules) into the future.

5. Non-Executive Director Remuneration

To attract and retain high calibre directors through a period of increasing scale and complexity, the Company transitioned to a cash only fee structure (ceasing equity with performance conditions) consistent with governance expectations for ASX 300 companies.

- At the 28 May 2025 AGM, shareholders approved an increase in the Non-Executive Director ('NED') fee cap to \$800,000 (previously \$500,000). Future changes will require shareholder approval.
- Directors may be reimbursed reasonable travel and related expenses.
- NEDs do not receive retirement benefits nor additional fees for Board sub-Committee roles.

From 28 May 2025, the fee policy below for the Board and Committees took effect:

Non-Executive Director type	Board fees
Chair	\$195,000
Member	\$150,000

Board Composition and NED Fee Review

The Board has commenced a process to appoint an additional NED to support the Company's ongoing growth and governance requirements. This process is currently underway and an appointment is expected to be announced once finalised.

In anticipation of changes to Board composition, and in line with good governance practice, the Board is undertaking a comprehensive independent benchmarking review of Non-Executive Director fees for FY2026. This review includes consideration of the Company's size, complexity, market positioning and peer group remuneration fee levels and associated practices.

At the date of this Report, the Board has not yet determined the NED fee structure for FY2026. The outcomes of the above benchmarking review, including the finalised quantum and structure of the resulting fee arrangements, will be announced prior to the Company's 2026 Annual General Meeting.

The following table details the fees paid to Non-Executive Directors in FY2025 and FY2024. Compensation is provided in cash and encompass compensation for both Board and sub-Committee memberships. All fees are inclusive of superannuation. Non-Executive Directors are not entitled to any payment or benefit on retirement or resignation from the Board.

Directors do not receive additional compensation for participation in, or chairing of, sub-Committees of the Board.

Non-Executive Director	Financial Year	Board fees	Other Benefits	Total
Peter James	2025	\$195,000	\$-	\$195,000
	2024	\$145,415	\$-	\$145,415
Jethro Marks	2025	\$150,000	\$-	\$150,000
	2024	\$91,667	\$-	\$91,667
Richard Joffe	2025	\$119,607	\$-	\$119,607
	2024	\$17,188	\$-	\$17,188
Simone Haslinger	2025	\$119,607	\$-	\$119,607
	2024	\$17,188	\$-	\$17,188

6. People, Culture and Remuneration Committee

The People, Culture and Remuneration Committee ('**Committee**') comprises only of Non-Executive Directors and has been delegated the authority to oversee and make recommendations on remuneration matters. The People, Culture and Remuneration Committee Charter is included within Schedule 5 of DroneShield's Corporate Governance Plan, which is available on the DroneShield website (<https://www.droneshield.com/investor-relations>).

The Committee members include:

Peter James	Independent Non-Executive	Committee Chair
Jethro Marks	Independent Non-Executive	Committee Member
Richard Joffe	Independent Non-Executive	Committee Member
Simone Haslinger	Independent Non-Executive	Committee Member

Primary responsibilities include:

- reviewing the People, Culture and Remuneration Policy to enable DroneShield to attract and retain executives and Directors who create shareholder value;
- ensuring executive demonstrates a clear relationship between performance and reward;
- recommending to the Board the remuneration of Executive Directors;
- rewarding executives fairly and responsibly, having regard to Company performance, individual performance and market expectations;
- reviewing recruitment, retention and termination policies for senior management;
- reviewing and approving remuneration for direct reports to the Managing Director/CEO, and other senior executives as appropriate;
- reviewing and approving equity-based plans and other incentive schemes; and
- reviewing people and culture strategy and talent management.

In early 2025, the Committee met with investors and stakeholders to discuss remuneration adjustments in light of the Company's growth trajectory and governance expectations of ASX 200 companies. The Committee remains committed to ongoing engagement.

7. Statutory KMP remuneration

Shareholdings of KMP

The number of shares in the Company held during the financial year by each Director of DroneShield and other KMP, including their personally related entities, are set out in the following table:

31 December 2025	Opening balance (number)	Received on exercise of options (number)	Sold (number)	Purchased (number)	Balance at 31 December 2025 (number)
Non-Executive Directors					
Peter James	935,345	3,000,000	(3,685,345)	-	250,000
Jethro Marks	-	1,500,000	(1,460,000)	-	40,000
Executive Director					
Oleg Vornik	-	15,000,000	(14,806,833)	-	193,167
KMP					
Carla Balanco	-	-	-	-	-
	935,345	19,500,000	(19,952,178)	-	483,167

31 December 2024	Opening balance (number)	Received on exercise of options (number)	Sold (number)	Purchased ^(a) (number)	Balance at 31 December 2024 (number)
Non-Executive Directors					
Peter James	6,532,030	-	(5,612,008)	15,323	935,345
Jethro Marks	1,292,901	-	(1,292,901)	-	-
Executive Director					
Oleg Vornik	10,456,038	-	(10,456,038)	-	-
KMP					
Carla Balanco	9,200,000	-	(9,200,000)	-	-
	27,480,969	-	(26,560,947)	15,323	935,345

(a) Shares purchased as part of Share Purchase Plan held in May 2024.

Performance options held by KMP

31 December 2025	Opening balance (number)	Granted as compensation ^(a) (number)	Options lapsed (number)	Options exercised (number)	Balance at 31 December 2025 (number)	Vested options (number)	Unvested options ^(b) (number)
Non-Executive Directors							
Peter James	3,000,000	-	-	(2,750,000)	250,000	250,000	-
Jethro Marks	1,500,000	-	-	(1,460,000)	40,000	40,000	-
Executive Director							
Oleg Vornik	15,000,000	709,361	-	(14,806,833)	902,528	193,167	709,361
KMP							
Carla Balanco	1,500,000	450,000	-	-	1,950,000	1,500,000	450,000
	21,000,000	1,159,361	-	(19,016,833)	3,142,528	1,983,167	1,159,361

(a) Performance Options are subject to the following vesting conditions being satisfied: DroneShield achieving \$200,000,000 of revenue or customer cash receipts; or automatic vesting in the event that DroneShield is subject to a change of control transaction.

(b) Performance Options vested in full in January 2026.

31 December 2024	Opening balance (number)	Granted as compensation ^(a) (number)	Options lapsed (number)	Options exercised ^(a) (number)	Balance at 31 December 2024 (number)	Vested options (number)	Unvested options (number)
Non-Executive Directors							
Peter James	-	3,000,000	-	-	3,000,000	-	3,000,000
Jethro Marks	-	1,500,000	-	-	1,500,000	-	1,500,000
Executive Director							
Oleg Vornik	-	15,000,000	-	-	15,000,000	-	15,000,000
KMP							
Carla Balanco	-	1,500,000	-	-	1,500,000	-	1,500,000
	-	21,000,000	-	-	21,000,000	-	21,000,000

(a) Performance Options are subject to the following vesting conditions being satisfied: DroneShield achieving \$200,000,000 of revenue or customer cash receipts; or automatic vesting in the event that DroneShield is subject to a change of control transaction.

Share-based payment remuneration granted, exercised, vested and lapsed

	2025		2024	
	Value granted (a) \$	Value exercised (b) \$	Value granted (a) \$	Value exercised (b) \$
Non-Executive Directors				
Peter James	-	1,072,500	1,170,000	-
Jethro Marks	-	598,600	615,000	-
Executive Director				
Oleg Vornik	851,233	6,070,802	6,150,000	-
KMP				
Carla Balanco	297,000	-	615,000	-
	1,148,233	7,741,902	8,550,000	-

(a) The value at grant date is calculated using the Black-Scholes Model.

(b) The value of the options exercised is calculated using the Black-Scholes Model.

Terms and conditions of the share-based payment arrangements - performance options

Class of Options issued during 2025	Number of Options	Grant date	Vesting date	Expiry date	Exercise price (\$)	Value per option at grant date (\$)	Performance achieved (a)	% vested during 2025
Oleg Vornik	709,361	28/05/2025	30/05/2028	30/05/2028	-	1.20	No	-
Carla Balanco	450,000	05/05/2025	31/03/2028	31/03/2028	-	0.66	No	-

(a) Performance options vested in full in January 2026.

Class of Options issued during 2024	Number of Options	Grant date	Vesting date	Expiry date	Exercise price (\$)	Value per option at grant date (\$)	Performance achieved (a)	% vested during 2024
Jethro Marks	1,500,000	15/01/2024	19/01/2029	19/01/2029	-	0.41	No	-
Oleg Vornik	15,000,000	17/01/2024	19/01/2029	19/01/2029	-	0.41	No	-
Carla Balanco	1,500,000	18/01/2024	19/01/2029	19/01/2029	-	0.41	No	-
Peter James	3,000,000	18/01/2024	19/01/2029	19/01/2029	-	0.39	No	-

(a) Performance options vested in full in November 2025.

Remuneration details of KMP

31 December 2025	Salary and fees \$	Performance bonus \$	Movement in employee provisions \$	Post-employment benefits \$	Share-based payments (options) ^(a) \$	Total 2025 \$
Non-Executive Directors						
Peter James	195,000	-	-	-	947,265	1,142,265
Jethro Marks	150,000	-	-	-	497,649	647,649
Richard Joffe	119,607	-	-	-	-	119,607
Simone Haslinger	119,607	-	-	-	-	119,607
Executive Director						
Oleg Vornik	850,000	850,000	39,426	29,966	5,720,240	7,489,632
KMP						
Carla Balanco	475,000	225,000	70,884	29,966	768,530	1,569,380
	1,909,214	1,075,000	110,310	59,932	7,933,684	11,088,140

(a) Calculated using the value at grant date.

31 December 2024	Salary and fees \$	Performance bonus \$	Movement in employee provisions \$	Post-employment benefits \$	Share-based payments (options) ^(a) \$	Total 2024 \$
Non-Executive Directors						
Peter James	145,416	-	-	-	222,735	368,151
Jethro Marks	91,667	-	-	-	117,351	209,018
Richard Joffe	17,188	-	-	-	-	17,188
Simone Haslinger	17,188	-	-	-	-	17,188
Executive Director						
Oleg Vornik	663,333	1,415,000	102,808	28,666	1,173,510	3,383,317
KMP						
Carla Balanco	251,155	249,409	17,395	28,665	117,895	664,519
	1,185,947	1,664,409	120,203	57,331	1,631,491	4,659,381

(a) Calculated using the value at grant date.

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

	Fixed 2025	Fixed 2024	Performance 2025	Performance 2024
Non-Executive Directors				
Peter James	17%	39%	83%	61%
Jethro Marks	23%	44%	77%	56%
Richard Joffe	100%	100%	0%	0%
Simone Haslinger	100%	100%	0%	0%
Executive Director				
Oleg Vornik	12%	23%	88%	77%
KMP				
Carla Balanco	37%	45%	63%	55%

The performance component of remuneration received by Directors and KMP relates to performance options, valued at grant date calculated using the Black-Scholes Model, and cash performance bonus. The issue of performance options to Directors is subject to shareholder approval. Remuneration in the form of DroneShield performance options to Non-Executive Directors has been discontinued.

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

Name	Positions held during the year	Key terms of employment agreement
Oleg Vornik	CEO and Managing Director	<ul style="list-style-type: none">- Remuneration of \$850,000 p.a. plus superannuation from 1 January 2025 to 31 December 2025- Eligible to participate in short term incentive program- Eligible to participate in long term incentive program- A notice period of 3 months, except in defined circumstances- No fixed term

Loans and Other Transactions

For the year ended 31 December 2025, there were no loans or other transactions entered into during the year with Key Management Personnel or their related parties.

Advisory Board remuneration

DroneShield established a Strategic Advisory Board in Australia in 2024 and in the USA in 2025, incurring member fees totalling \$236,789 during FY2025 (2024: \$33,524).

Remuneration report (conclusion)

This concludes the remuneration report, which has been audited.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



Peter James
Independent Non-Executive Chairman

25 February 2026
Sydney NSW

Auditor's Independence Declaration

To the directors of DroneShield Limited:

As lead auditor for the audit of the consolidated financial report of DroneShield Limited for the year ended 31 December 2025, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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



Sydney, NSW
25 February 2026

N J Guest
Director

DroneShield Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2025



	Note	Consolidated 2025 \$'000	2024 \$'000
Revenue	5	216,547	57,529
Other income		265	482
Interest income calculated using the effective interest method		7,966	5,913
Expenses			
Cost of goods sold		(84,706)	(16,284)
Product development expense		(45,374)	(21,815)
Sales and customer service expense		(27,535)	(11,131)
Corporate and support expense		(36,492)	(15,123)
Corporate governance expense		(2,972)	(2,031)
Share-based payment expense	30	(23,511)	(4,647)
Net foreign exchange (loss)/gains		(2,304)	780
Finance costs		(633)	(459)
Profit/(loss) before income tax benefit	6	1,251	(6,786)
Income tax benefit	7	2,270	5,466
Profit/(loss) after income tax benefit for the year attributable to the owners of DroneShield Limited		3,521	(1,320)
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation	19	(2,601)	976
Other comprehensive (loss)/income for the year, net of tax		(2,601)	976
Total comprehensive income/(loss) for the year attributable to the owners of DroneShield Limited		920	(344)
		\$	\$
Basic earnings per share	8	0.004	(0.002)
Diluted earnings per share	8	0.004	(0.002)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

DroneShield Limited
Consolidated statement of financial position
As at 31 December 2025



	Note	Consolidated 2025 \$'000	2024 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	103,388	62,620
Term and other deposits	9	106,102	156,869
Trade and other receivables	10	44,275	31,352
Inventories	11	78,944	66,678
Income tax receivable		2,177	382
Total current assets		334,886	317,901
Non-current assets			
Property, plant and equipment	12	29,209	9,555
Right-of-use assets	13	10,770	7,099
Intangible assets	14	20,146	6,419
Deferred tax asset	7	16,107	13,739
Term and other deposits		1,067	1,166
Total non-current assets		77,299	37,978
Total assets		412,185	355,879
Liabilities			
Current liabilities			
Trade and other payables	15	27,486	4,717
Contract liabilities	16	23,583	20,649
Lease liabilities	17	3,260	373
Income tax payable		400	799
Employee benefits		2,422	1,071
Provisions		802	224
Total current liabilities		57,953	27,833
Non-current liabilities			
Contract liabilities	16	4,083	6,073
Lease liabilities	17	10,995	8,734
Employee benefits		730	326
Provisions		1,808	1,326
Total non-current liabilities		17,616	16,459
Total liabilities		75,569	44,292
Net assets		336,616	311,587
Equity			
Issued capital	18	313,747	313,149
Reserves	19	11,610	10,088
Retained profits/(accumulated losses)		11,259	(11,650)
Total equity		336,616	311,587

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

DroneShield Limited
Consolidated statement of changes in equity
For the year ended 31 December 2025



Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2024	80,378	5,474	(11,339)	74,513
Loss after income tax benefit for the year	-	-	(1,320)	(1,320)
Other comprehensive income for the year, net of tax	-	976	-	976
Total comprehensive income/(loss) for the year	-	976	(1,320)	(344)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	224,854	-	-	224,854
Share-based payments (note 30)	-	4,647	-	4,647
Transfer from share-based payments reserve to accumulated losses	-	(1,009)	1,009	-
Repayment of management / employee option	7,917	-	-	7,917
Balance at 31 December 2024	<u>313,149</u>	<u>10,088</u>	<u>(11,650)</u>	<u>311,587</u>

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 January 2025	313,149	10,088	(11,650)	311,587
Profit after income tax benefit for the year	-	-	3,521	3,521
Other comprehensive loss for the year, net of tax	-	(2,601)	-	(2,601)
Total comprehensive (loss)/income for the year	-	(2,601)	3,521	920
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued from options exercised (note 18)	252	-	-	252
Share-based payments (note 30)	-	23,511	-	23,511
Transfer from share-based payments reserve to accumulated losses	-	(19,388)	19,388	-
Repayment of management / employee option	346	-	-	346
Balance at 31 December 2025	<u>313,747</u>	<u>11,610</u>	<u>11,259</u>	<u>336,616</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated 2025 \$'000	2024 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		201,560	56,604
Payments to suppliers and employees (inclusive of GST)		(187,597)	(117,084)
Grants and other incentives received		165	271
Other receipts		55	15
Income taxes refunded/(paid)		1,761	(2,003)
Net cash from/(used in) operating activities	29	<u>15,944</u>	<u>(62,197)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(14,827)	(6,359)
Payments for intangibles	14	(15,999)	(6,652)
Payments for term deposits greater than 3 months		(455,353)	(422,284)
Proceeds from maturity of term deposits greater than 3 months		506,394	265,442
Interest received on cash deposits		8,123	4,589
Net cash from/(used in) investing activities		<u>28,338</u>	<u>(165,264)</u>
Cash flows from financing activities			
Proceeds from issue of shares	18	-	243,439
Proceeds from options exercised		598	1,433
Share issue transaction costs		-	(12,115)
Interest on lease liabilities and other finance costs paid	17	(539)	(436)
Repayment of lease liabilities, net of lease incentive		(536)	(432)
Net cash (used in)/from financing activities		<u>(477)</u>	<u>231,889</u>
Net increase in cash and cash equivalents		43,805	4,428
Cash and cash equivalents at the beginning of the financial year		62,620	56,696
Effects of exchange rate changes on cash and cash equivalents		(3,037)	1,496
Cash and cash equivalents at the end of the financial year	9	<u><u>103,388</u></u>	<u><u>62,620</u></u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

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Note 1. General information

The financial statements cover DroneShield Limited as a Group consisting of DroneShield Limited and the entities it controlled at the end of, or during, the year (the '**Group**'). The financial statements are presented in Australian dollars, which is DroneShield Limited's functional and presentation currency.

DroneShield Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5
126 Phillip Street
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 25 February 2026. The Directors have the power to amend and reissue the financial statements.

Note 2. Material accounting policy information

The accounting policies that are material to the Group are set out either in the respective notes or below. The accounting policies adopted are consistent with those of the previous financial year, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards Accounting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 28.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of DroneShield Limited ('Company' or 'parent entity') as at 31 December 2025 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Note 2. Material accounting policy information (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2025. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 18 Presentation and Disclosure in Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2027 and early adoption is permitted. The standard replaces AASB 101 'Presentation of Financial Statements', with many of the original disclosure requirements retained and there will be no impact on the recognition and measurement of items in the financial statements. The standard will affect presentation and disclosure in the financial statements, including mandating five categories in the statement of profit or loss and other comprehensive income: operating, investing, financing, income taxes and discontinued operations. The standard introduces two mandatory sub-totals in the statement: 'Operating profit' and 'Profit before financing and income taxes'. There are also new disclosure requirements for 'management-defined performance measures', such as earnings before interest, taxes, depreciation and amortisation ('**EBITDA**') or 'adjusted profit'. The standard provides enhanced guidance on grouping of information (aggregation and disaggregation), including whether to present this information in the primary financial statements or in the notes. The Group will adopt this standard from 1 January 2027 and it is expected that there will be a significant change to the layout of the statement of profit or loss and other comprehensive income.

AASB 2024-2 Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments

The AASB has issued AASB 2024-2 to amend AASB 7 Financial Instruments: Disclosures and AASB 9 Financial Instruments.

This Standard amends requirements related to:

- settling financial liabilities using an electronic payment system; and
- assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance ('**ESG**') and similar features.

This Standard also amends disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income and adds disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs.

AASB 2024-2 applies to annual periods beginning on or after 1 January 2026. Earlier application is permitted. The Group does not expect these amendments to have a material impact.

Note 3. Critical accounting judgements, estimates 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 critical accounting judgements, estimates and assumptions that are likely to affect the current or future financial years are disclosed in the relevant notes.

Note 4. 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.

Identification of reportable operating segments

The Group operates in one operating segment, being the development, commercialisation and sales of counterdrone hardware and software technology.

The CODM reviews the operating results. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment transactions

Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Disaggregation of operating segment by geography

Segment performance	Australia and		Elimination	Total
31 December 2025	USA	Rest of World		
	\$'000	\$'000	\$'000	\$'000
Hardware and shipping	24,922	178,574	(7,244)	196,252
Warranty	1,926	490	-	2,416
Subscription	2,781	8,833	-	11,614
Services	98	7,092	(925)	6,265
Total revenue from customers	29,727	194,989	(8,169)	216,547
Non-current assets				
Material segment assets	13,714	66,369	(1,227)	78,856

Note 4. Operating segments (continued)

Segment performance 31 December 2024	USA \$'000	Australia and Rest of World \$'000	Elimination \$'000	Total \$'000
Hardware and shipping	36,274	28,840	(16,737)	48,377
Warranty	1,303	138	-	1,441
Subscription	1,776	1,041	-	2,817
Services	81	4,813	-	4,894
Total revenue from customers	39,434	34,832	(16,737)	57,529

Non-current assets

Material segment assets	7,173	38,732	(7,927)	37,978
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Note 5. Revenue

	Consolidated 2025 \$'000	2024 \$'000
<i>Revenue from contracts with customers</i>		
Hardware and shipping	196,252	48,377
Warranty	2,416	1,441
Subscription	11,614	2,817
Services	6,265	4,894
Revenue	216,547	57,529

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated 2025 \$'000	2024 \$'000
<i>Customer type</i>		
Direct sales	37,088	24,583
Distributors	179,459	32,946
	216,547	57,529
<i>Timing of revenue recognition</i>		
Revenue generated at a point in time	196,252	48,377
Revenue generated over time	20,295	9,152
	216,547	57,529

Refer to note 4 for the geographical disaggregation of revenue.

Note 5. Revenue (continued)

Accounting policy

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Hardware and shipping

The Group sells hardware to distributors and directly to customers. Sales-related warranties associated with hardware can be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group recognises revenue for separately sold warranties in line with AASB 15 'Revenue from Contracts with Customers'.

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

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

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

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

Subscription

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

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

Services

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

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

Note 6. Expenses

	Consolidated	
	2025	2024
	\$'000	\$'000
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation and amortisation</i>		
Property, plant and equipment	6,179	2,311
Right-of-use assets	2,128	1,038
Intangible assets	2,272	268
	<u>10,579</u>	<u>3,617</u>
<i>Superannuation expense</i>		
Defined contribution and superannuation expense	4,085	1,756
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	59,761	26,675

Note 7. Income tax

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Income tax benefit</i>		
Current tax	13,766	2,414
Deferred tax - origination and reversal of temporary differences	(16,036)	(7,880)
	<u>(2,270)</u>	<u>(5,466)</u>
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets	(16,036)	(7,880)
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Profit/(loss) before income tax benefit	1,251	(6,786)
Tax at the statutory tax rate of 30%	375	(2,036)
Prior year tax losses not recognised now recouped	1,020	(1,784)
Difference in overseas tax rates	(805)	(1,437)
Research and development tax incentive	(13,450)	(5,326)
Foreign exchange adjustments	-	16
Expenditure not allowable for income tax	10,590	5,101
	<u>(2,270)</u>	<u>(5,466)</u>
<i>Applicable statutory income tax rates are as follows:</i>		
- Australia	30%	30%
- USA (Federal and State)	24%	24%

Note 7. Income tax (continued)

	Consolidated 2025 \$'000	2024 \$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	946	419
Lease liabilities	4,112	2,696
Right-of-use assets	(3,074)	(2,098)
Contract liabilities	-	1,499
Inventory impairment provision	1,984	-
Research and development expenses	(3,942)	418
Losses carried forward	8,293	3,846
Blackhole expenditure	1,548	2,049
Other temporary differences	880	581
R&D tax incentive offset carried forward	5,360	4,329
Deferred tax asset	<u>16,107</u>	<u>13,739</u>
Movements:		
Opening balance	13,739	5,362
Credited to profit or loss	16,036	7,880
Foreign exchange	(609)	497
Utilised against current tax liability	<u>(13,059)</u>	<u>-</u>
Closing balance	<u>16,107</u>	<u>13,739</u>

Accounting policy

Income and deferred tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Note 7. Income tax (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Entities within the Group are entitled to claim special tax deductions in relation to qualifying expenditure under the Research and Development Tax Incentive regime. The Group accounts for these allowances as tax credits.

Key estimate and judgement

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 8. Earnings per share

	Consolidated	
	2025	2024
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of DroneShield Limited	<u>3,521</u>	<u>(1,320)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	921,668,710	624,993,012
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares*	<u>48,606,334</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>970,275,044</u>	<u>624,993,012</u>
	\$	\$
Basic earnings per share	0.004	(0.002)
Diluted earnings per share	0.004	(0.002)

* At 31 December 2024, 49,234,334 performance options were excluded as their inclusion would be anti-dilutive due to the loss for the year.

Note 9. Cash and cash equivalents

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank and on hand	53,250	47,620
Short-term deposits	<u>50,138</u>	<u>15,000</u>
	<u>103,388</u>	<u>62,620</u>

Note 9. Cash and cash equivalents (continued)

In addition to the current cash and short-term deposits, the Group also has \$106,102,000 (2024: \$156,869,000) in longer-term cash deposits (over 3 months), bringing the total cash reserves to \$209,490,000 (2024: \$219,489,000).

Accounting policy

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 10. Trade and other receivables

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	33,438	17,328
GST receivable	1,844	298
Other receivables	1,925	1,539
Prepayments	7,068	12,187
	<u>44,275</u>	<u>31,352</u>

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised a provision for expected credit losses because there has not been a significant change in credit quality and the amounts are still considered recoverable.

The ageing of the receivables are as follows:

	Carrying amount	
	2025	2024
	\$'000	\$'000
Consolidated		
Not overdue	26,809	14,191
Less than 30 days	1,293	1,778
31 to 60 days	4,939	699
61 to 90 days	397	677
More than 90 days	-	(17)
	<u>33,438</u>	<u>17,328</u>

Accounting policy

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Prepayments

Payments made for the receiving of goods or services rendered in the next 12 months are recognised as a prepayment.

Note 11. Inventories

	Consolidated 2025 \$'000	2024 \$'000
<i>Current assets</i>		
Raw materials - at cost	53,314	48,981
Finished goods - at cost	25,630	17,697
	78,944	66,678

Inventories recognised as an expense

Inventories recognised as expenses during the year amounted to \$84,706,000 (2024: \$16,284,000). This amount includes inventory write-downs to net realisable value of approximately \$10,315,000 (2024: \$630,000), which have been recognised within cost of goods sold in the consolidated statement of profit or loss. The inventory balances reconciled in the previous table are reduced by the impairment provision.

Inventory write-downs to net realisable value

During the year, the Group recognised inventory write-downs to net realisable value of \$10,315,000 (2024: \$630,000). This comprised \$8,500,000 relating to finished goods (2024: \$nil) and \$1,800,000 relating to raw materials (2024: \$630,000).

The inventory write-downs recognised during the year reflect management's assessment that the carrying values of certain inventory items exceeded their net realisable value, based on expected selling prices, forecast demand and costs to sell at the reporting date.

The write-down of finished goods primarily relates to potential obsolescence of earlier models of DroneGuns held in inventory. These legacy models accounted for approximately 2.3% of total Group revenue during the year, with customer demand continuing to shift toward more advanced fixed-site systems and next-generation ultra-portable handheld equipment. While the Group is continuing to pursue sales opportunities for these earlier models, management determined that a write-down to net realisable value was appropriate at the reporting date, reflecting current market conditions and expected future sales prospects.

The write-down of raw materials relates predominantly to inventory adjustments identified during the implementation of a large-scale enterprise resource planning ('ERP') system and the transition of manufacturing operations to a new facility. As part of these activities, a comprehensive review and verification of all inventory holdings was completed in January 2026. This review resulted in a reassessment of certain raw material items, with adjustments recorded to reflect updated quantities, usability, and net realisable value.

Accounting policies

Inventories

Raw materials and finished goods are stated at the lower of cost and net realisable value using the weighted average cost. Cost comprises of direct materials and delivery costs, direct labour, and other relevant attributable costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Key estimate and judgement

Inventory valuation

The determination of net realisable value requires significant judgement, including estimates of future selling prices, forecast demand, inventory ageing, and costs to sell. These estimates are based on the most reliable information available at the reporting date, including current market conditions and management's expectations.

During the year, changes in these estimates resulted in material inventory write-downs to net realisable value. Actual outcomes may differ from these estimates, which could result in additional write-downs or reversals of impairment provisions in future periods.

Note 12. Property, plant and equipment

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	7,527	2,741
Less: Accumulated depreciation	(1,603)	(385)
	<u>5,924</u>	<u>2,356</u>
Plant and equipment - at cost	13,154	5,037
Less: Accumulated depreciation	(3,515)	(1,202)
	<u>9,639</u>	<u>3,835</u>
Vehicles and trailers - at cost	277	223
Less: Accumulated depreciation	(108)	(80)
	<u>169</u>	<u>143</u>
Demonstration equipment - at cost	12,285	3,956
Less: Accumulated depreciation	(3,295)	(1,728)
	<u>8,990</u>	<u>2,228</u>
Development equipment - at cost	104	104
Construction in progress - at cost	4,383	889
	<u>29,209</u>	<u>9,555</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Leasehold improve- ments \$'000	Plant and equipment \$'000	Vehicles and trailers \$'000	Demonstra- tion equipment \$'000	Develop- ment equipment \$'000	Construc- tion in progress \$'000	Total \$'000
Consolidated							
Balance at 1 January 2024	914	1,716	92	855	391	-	3,968
Additions	1,827	2,994	69	511	-	889	6,290
Disposals	-	(35)	-	(3)	(42)	-	(80)
Transfer from/(to) inventories	-	-	-	2,069	-	-	2,069
Transfer from/(to) profit or loss	-	(6)	-	(135)	(245)	-	(386)
Exchange differences	-	-	5	-	-	-	5
Depreciation expense	(385)	(834)	(23)	(1,069)	-	-	(2,311)
Balance at 31 December 2024	2,356	3,835	143	2,228	104	889	9,555
Additions	-	7,878	64	3,996	-	8,285	20,223
Disposals	-	(106)	-	(507)	-	-	(613)
Transfer from inventories	-	360	-	5,878	-	-	6,238
Exchange differences	-	(4)	(5)	(1)	-	(5)	(15)
Transfer from/(to) construction in progress	4,786	-	-	-	-	(4,786)	-
Depreciation expense	(1,218)	(2,324)	(33)	(2,604)	-	-	(6,179)
Balance at 31 December 2025	<u>5,924</u>	<u>9,639</u>	<u>169</u>	<u>8,990</u>	<u>104</u>	<u>4,383</u>	<u>29,209</u>

Note 12. Property, plant and equipment (continued)

Accounting policy

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	2-5 years
Vehicles and trailers	8 years
Demonstration equipment	2-5 years
Development equipment	2-5 years
Construction in progress	not depreciated

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Items within construction in progress are not depreciated until they are made available for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Key estimate and judgement

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 13. Right-of-use assets

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Non-current assets</i>		
Offices	14,405	8,665
Less: Accumulated depreciation	<u>(3,635)</u>	<u>(1,566)</u>
	<u>10,770</u>	<u>7,099</u>

The Group leases various offices with contractual lease terms ranging from 1 to 5 years.

For other AASB 16 lease disclosures refer to:

- note 6 and note 17 for depreciation on right-of-use assets, interest on lease liabilities and other lease expenses;
- consolidated statement of financial position for lease liabilities at the reporting date;
- note 21 for undiscounted future lease commitments; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 13. Right-of-use assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Offices \$'000
Balance at 1 January 2024	1,926
Additions	6,211
Depreciation expense	(1,038)
	<hr/>
Balance at 31 December 2024	7,099
Additions	5,707
Exchange differences	(40)
Lease modification	132
Depreciation expense	(2,128)
	<hr/>
Balance at 31 December 2025	<u>10,770</u>

Accounting policy

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 14. Intangible assets

	Consolidated 2025 \$'000	2024 \$'000
<i>Non-current assets</i>		
Purchased software - at cost	51	56
Less: Accumulated amortisation	(33)	(31)
	18	25
Internally generated software - at cost	10,494	2,788
Less: Accumulated amortisation	(1,730)	(204)
	8,764	2,584
Prototypes and product designs - at cost	4,708	1,952
Less: Accumulated amortisation	(782)	(49)
	3,926	1,903
Ongoing development costs (WIP) - at cost	7,438	1,907
	20,146	6,419

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Purchased software \$'000	Internally generated software \$'000	Prototypes and product designs \$'000	Ongoing development costs (WIP) \$'000	Total \$'000
Balance at 1 January 2024	34	-	-	-	34
Additions	6	-	-	6,647	6,653
Transfers	-	2,788	1,952	(4,740)	-
Amortisation expense	(15)	(204)	(49)	-	(268)
	25	2,584	1,903	1,907	6,419
Balance at 31 December 2024	25	-	-	15,994	15,999
Additions	5	-	-	(10,463)	-
Transfers	-	7,706	2,757	-	-
Amortisation expense	(12)	(1,526)	(734)	-	(2,272)
	18	8,764	3,926	7,438	20,146
Balance at 31 December 2025	18	8,764	3,926	7,438	20,146

Accounting policy

Intangible assets

Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Purchased software

Purchased software relates to the cost of purchased licenses. This software is used by the technology teams in the development of new products and software. The intangible asset is subsequently carried at historical cost less accumulated amortisation and impairment losses. Purchased software is amortised on a straight-line basis over 5 years.

Note 14. Intangible assets (continued)

Internally generated software

Internally generated software comprises of the historical cost of development activities for computer software licensed to and used by customers. The asset is transferred from ongoing development costs (WIP) when the software is considered ready for its intended use, which coincides with when the software is released to customers. The intangible asset is subsequently carried at historical cost less accumulated amortisation and impairment losses. Internally generated software is amortised on a straight-line basis over 4 years.

Prototypes and product designs

Prototypes and product designs comprise of the historical cost of development activities relating to the design and testing of new products being released to the market. The primary cost is engineering salaries, noting that the Group's products are highly technical and require significant research and development relating to both hardware and software before a market release is possible. The intangible asset is transferred from ongoing development costs (WIP) based on when project milestones are met. The intangible asset is subsequently carried at historical cost less accumulated amortisation and impairment losses. Prototypes and product designs are amortised on a straight-line basis over 3-4 years.

Ongoing development costs (WIP)

Ongoing development costs relate to costs incurred on projects that have met the development cost capitalisation criteria. These costs are put in force as an amortising intangible asset when the asset is ready for its intended use. The length of the project depends on the nature, but can range from 3-6 months (for ongoing software development) to 1-2 years (for new product development). Ongoing development costs are not amortised, and tested for impairment when there are indicators.

Key estimate and judgement

Project capitalisation

Management has made judgements in assessing whether costs relating to a project may be capitalised as an intangible asset. This includes assessment as to:

- whether the project gives rise to an intangible asset which meets the definition criteria of the accounting standards, including control and future economic benefit;
- whether a project is in the research or development phase; and
- when in the development phase, whether the related development costs may be capitalised, considering the attributes of the intangible asset including commercial and technical feasibility of completion, ability to use or sell, probable future economic benefit, and other relevant factors as per the recognition criteria in the accounting standard.

Continued growth in sales along with anticipated customer demand have contributed to the evidence that capitalisation is appropriate under the accounting standards for a select group of projects.

Useful life of intangible assets

Management makes judgements when assessing the expected useful life of an intangible asset. The useful life is reviewed at the end of the reporting period and adjusted if appropriate. For internally generated software, the useful life has been determined with reference to the expected rate of obsolescence of both the software itself and the hardware which the software supports. For prototypes and product designs, the useful life is determined based on the Group's technology roadmap and the expected hardware refresh cycle, noting that new versions of hardware are released periodically in order to keep pace with technological development in the industry.

Impairment of intangible assets

Management uses judgement to assess whether any impairment indicators exist for intangible assets. The impairment indicators are reviewed at each reporting period. In 2025, no impairment was noted (2024: \$nil).

Note 15. Trade and other payables

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	21,672	2,167
Accrued expenses	5,814	2,550
	<u>27,486</u>	<u>4,717</u>

Refer to note 21 for further information on financial instruments.

Accounting policy

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 16. Contract liabilities

Contract liabilities by type of deferred revenue is as follows:

	Consolidated	
	2025	2024
	\$'000	\$'000
<i>Current liabilities</i>		
Hardware and shipping	4,769	12,813
Subscription	12,867	5,018
Services	3,350	165
Warranty	2,597	2,653
	<u>23,583</u>	<u>20,649</u>
<i>Non-current liabilities</i>		
Subscription	2,875	3,815
Warranty	1,208	2,258
	<u>4,083</u>	<u>6,073</u>
	<u>27,666</u>	<u>26,722</u>

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Opening balance	26,722	14,547
Transfer to revenue - included in the opening balance	(22,779)	(5,586)
Disposals	-	(373)
Payments received in advance for new contracts	23,723	18,134
	<u>27,666</u>	<u>26,722</u>
Closing balance	<u>27,666</u>	<u>26,722</u>

Note 16. Contract liabilities (continued)

Accounting policy

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Note 17. Lease liabilities

The total cash outflows for leases, including short-term leases was \$3,549,000 (2024: \$866,000), including short-term lease payments of \$241,000 (2024: \$49,000). In addition, fitout incentives of \$2,233,000 (2024: \$1,123,000) were received from the lessor. Interest on leases was \$539,000 (2024: \$434,000).

Refer to note 21 for the maturity analysis of lease liabilities.

Accounting policy

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Key estimate and judgement

Incremental borrowing rate

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

Lease term

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

Note 18. Issued capital

	2025 Shares	Consolidated 2024 Shares	2025 \$'000	2024 \$'000
Ordinary shares - fully paid	913,417,667	872,115,159	313,747	313,149

Note 18. Issued capital (continued)

Movements in ordinary share capital

Details	Shares	\$'000
Balance as at 1 January 2024	611,453,611	80,378
Issue of ordinary shares - options exercised ^(a)	6,475,000	1,432
Issue of ordinary shares - cashless exercise ^(b)	5,388,085	-
Issue of ordinary shares - loan funded ^(c)	50,000	-
Repayment of limited recourse loan ^(d)	-	7,917
Issue of ordinary shares - share placement ^(e)	229,999,743	220,522
Issue of ordinary shares - share purchase plan ^(f)	18,748,720	15,000
Transaction costs in relation to shares issued ^(g)	-	(12,100)
	<hr/>	<hr/>
Balance as at 31 December 2024	872,115,159	313,149
Issue of ordinary shares - options exercised ^(a)	40,327,960	249
Issue of ordinary shares - cashless exercise ^(b)	339,548	-
Issue of ordinary shares - loan funded ^(c)	635,000	-
Repayment of limited recourse loan ^(d)	-	349
Balance	<hr/> 913,417,667 <hr/>	<hr/> 313,747 <hr/>

(a) In 2025 39,457,960 performance options (2024: 700,000) were exercised. Cash was received of \$249,000 for the remaining 870,000 options exercised (2024: \$1,432,000 cash received for 5,775,000 options exercised).

(b) In 2025 339,548 options (2024: 5,388,085) were exercised using a cashless exercise.

(c) In 2025, 635,000 options (2024: 50,000) were exercised using a limited-recourse loan, where the company provided an interest free loan for conversion of options previously issued by the company into shares. The loan is due for repayment within 5 years from the date of inception. The loan is non-recourse except against the shares issued on exercise of the options and are held by the participant to which the loan relates.

(d) In 2025, \$349,334 was received (2024: 7,917,000) from the repayment of limited recourse loans from employees.

(e) In April and June 2024, the Company issued, in total, 125,651,916 shares in share placements. The issue price was \$0.80 per share and the total cash received from the placement of shares was \$100,522,000.

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

(g) Included in transaction costs is corporate advisory, management and selling fees paid to brokers in relation to the April, June and August 2024 share placements.

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 31 December 2024 Annual Report.

Note 18. Issued capital (continued)

Accounting policy

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 19. Reserves

	Consolidated	
	2025	2024
	\$'000	\$'000
Foreign currency reserve	(342)	2,259
Share-based payments reserve	11,952	7,829
	<u>11,610</u>	<u>10,088</u>

Foreign currency reserve

The foreign currency reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$'000	Share-based payments \$'000	Total \$'000
Balance at 1 January 2024	1,283	4,191	5,474
Foreign currency translation	976	-	976
Share-based payments	-	4,647	4,647
Transfer from share-based payments reserve to accumulated losses	-	(1,009)	(1,009)
Balance at 31 December 2024	2,259	7,829	10,088
Foreign currency translation*	(2,601)	-	(2,601)
Share-based payments	-	23,511	23,511
Transfer from share-based payments reserve to accumulated losses	-	(19,388)	(19,388)
Balance at 31 December 2025	<u>(342)</u>	<u>11,952</u>	<u>11,610</u>

* The reason for the significant decrease is due to the settlement of amounts owing by a subsidiary entity, DroneShield LLC, to the Australian entities in the Group.

Accounting policies

Foreign currency translation - transactions

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Note 19. Reserves (continued)

Foreign currency translation - foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 20. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 21. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by Audit and Risk Committee under the delegated power from the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date translated in AUD at the reporting date rate were as follows:

	Consolidated	
	2025	2024
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	16,067	23,284
Trade and other receivables	18,131	9,711
Term and other deposits	325	161
Total financial assets	34,523	33,156
Financial liabilities		
Trade and other payables	(23,348)	(2,176)
Contract liabilities	(23,045)	(24,860)
Total financial liabilities	(46,393)	(27,036)

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

Note 21. Financial instruments (continued)

	AUD strengthened		AUD weakened	
	% change	Effect on profit before tax \$'000	% change	Effect on profit before tax \$'000
Consolidated - 2025				
USD, GBP and EUR	10%	<u>1,076</u>	(10%)	<u>(2,084)</u>
Consolidated - 2024				
USD, GBP and EUR	10%	<u>(378)</u>	(10%)	<u>898</u>

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group is not exposed to any significant interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 21. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2025	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables		27,486	-	-	27,486
<i>Interest-bearing - variable</i>					
Lease liability - net of lease incentives	5.96%	4,862	12,108	-	16,970
Total non-derivatives		<u>32,348</u>	<u>12,108</u>	-	<u>44,456</u>

Over the next 12 months, DroneShield Limited expects to receive fitout incentives of \$575,000 relating to office space leased at the end of 2025.

Consolidated - 2024	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables		4,717	-	-	4,717
<i>Interest-bearing - variable</i>					
Lease liability - net of lease incentives	6.07%	111	9,671	-	9,782
Total non-derivatives		<u>4,828</u>	<u>9,671</u>	-	<u>14,499</u>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 22. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated 2025 \$	2024 \$
Movement in employee benefits	110,310	120,203
Performance bonus	1,075,000	1,664,409
Post-employment benefits	59,932	57,331
Salaries and fees	1,909,214	1,185,947
Share-based payments	7,933,684	1,631,491
	<u>11,088,140</u>	<u>4,659,381</u>

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by HLB Mann Judd Assurance (NSW) Pty Ltd, the auditor of the Company, and its network firms:

	Consolidated	
	2025	2024
	\$	\$
<i>Audit services - HLB Mann Judd Assurance (NSW) Pty Ltd</i>		
Audit or review of the financial statements	<u>281,039</u>	<u>165,562</u>
<i>Other services - network firms</i>		
Taxation, information technology and other services	<u>153,204</u>	<u>509,550</u>

Note 24. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2025 and 31 December 2024.

Note 25. Commitments

At 31 December 2025, contractual agreements existed to pay suppliers \$39,375,000 for the manufacturing of inventory to deliver on orders received (31 December 2024: \$28,189,000).

Note 26. Related party transactions

Parent entity

DroneShield Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the Directors' report.

Transactions with related parties

Macquarie Technology Operations Pty Ltd is a related party providing data and hosting solution. Total transactions in 2025 were \$206,600 (2024: \$nil).

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2025 %	2024 %
DroneShield Group Pty Ltd	Australia	100%	100%
DroneShield Corporation Pty Ltd	Australia	100%	100%
DroneShield Defence Services Pty Ltd	Australia	100%	100%
DroneShield LLC	United States of America	100%	100%
DroneShield B.V.*	The Netherlands	100%	-
DroneShield Belgium B.V.*	Belgium	100%	-
DroneShield Defense Services LLC*	United States of America	100%	-

* Incorporated during the year.

Note 28. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2025 \$'000	2024 \$'000
Profit/(loss) after income tax	3,604	(1,627)
Total comprehensive income/(loss)	3,604	(1,627)

Statement of financial position

	Parent	
	2025 \$'000	2024 \$'000
Total current assets	306,023	279,656
Total non-current assets	10,719	8,454
Total assets	316,742	288,110
Total current liabilities	1,689	769
Total non-current liabilities	-	-
Total liabilities	1,689	769
Net assets	315,053	287,341
Equity		
Issued capital	312,424	311,826
Reserves	11,952	7,829
Accumulated losses	(9,323)	(32,314)
Total equity	315,053	287,341

Note 28. Parent entity information (continued)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2025 and 31 December 2024.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2025 and 31 December 2024.

Capital commitments - inventory

At 31 December 2025, no contractual agreements existed, for the parent entity, to pay suppliers for the manufacturing of inventory to deliver on orders received (2024: \$nil). All supplier purchases are processed through DroneShield Group Pty Ltd, a subsidiary company.

Material accounting policy information

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 29. Cash flow information

Reconciliation of profit/(loss) after income tax to net cash from/(used in) operating activities

	Consolidated	
	2025	2024
	\$'000	\$'000
Profit/(loss) after income tax benefit for the year	3,521	(1,320)
Adjustments for:		
Depreciation and amortisation expense	10,579	3,617
Impairment of inventories	10,315	630
Share-based payments	23,575	4,647
Foreign exchange differences	437	386
Interest received	(7,966)	(5,913)
Interest and other finance costs	633	459
Change in operating assets and liabilities:		
Increase in trade and other receivables	(18,140)	(29,281)
Decrease in contract assets	-	86
Increase in inventories	(22,581)	(48,098)
Increase in income tax refund due	(1,795)	(33)
Increase in deferred tax assets	(2,368)	(8,377)
Increase in trade and other payables	12,321	5,456
Increase in provision for income tax	3,654	1,155
Increase in employee benefits	1,755	664
Increase in other provisions	1,060	1,550
Increase in contract liabilities	944	12,175
Net cash from/(used in) operating activities	<u>15,944</u>	<u>(62,197)</u>

Non-cash investing and financing activities

	Consolidated	
	2025	2024
	\$'000	\$'000
Additions to the right-of-use assets	5,707	6,211
Additions to property, plant and equipment	5,396	69
	<u>11,103</u>	<u>6,280</u>

Note 29. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Lease liabilities \$'000
Balance at 1 January 2024	2,625
Net cash used in financing activities	(432)
Interest	512
Acquisition of leases	6,211
Other changes	191
Balance at 31 December 2024	9,107
Net cash used in financing activities	(536)
Interest	604
Acquisition of leases	4,782
Other changes	298
Balance at 31 December 2025	14,255

Note 30. Share-based payments

The Group provides benefits to employees in the form of share-based payment options via an Incentive Option Plan. The Incentive Option Plan was approved at the 2025 AGM held on 28 May 2025, approving an issue of up to a maximum of 50,000,000 options. The Incentive Option Plan continues in operation until the Board determines otherwise.

Incentive Option Plan

Option class	Grant date(s)	Number of options					Closing balance	Average grant date fair value
		Opening balance	Granted	Lapsed	Exercised			
Y	05/01/2022 - 19/01/2022	750,000	-	-	(500,000)	250,000	\$0.0716	
AA	16/06/2022 - 03/08/2022	325,000	-	-	(325,000)	-	\$0.0457	
AB	22/07/2022	500,000	-	(500,000)	-	-	\$0.0713	
AC	18/04/2023 - 20/04/2023	515,000	-	(120,178)	(394,822)	-	\$0.1049	
AE	03/11/2023 - 22/12/2023	200,000	-	(9,147)	(190,853)	-	\$0.0844	
AG	14/02/2024 - 15/02/2024	519,000	-	-	(500,000)	19,000	\$0.2282	
AH	26/03/2024	20,000	-	-	(20,000)	-	\$0.2553	
Performance 2024	15/01/2024 - 17/12/2024	46,405,000	-	(660,000)	(39,371,833)	6,373,167	\$0.7318	
Performance 2025	31/01/2025 - 26/06/2025	-	11,504,361	(830,000)	-	10,674,361	\$0.7679	
		49,234,000	11,504,361	(2,119,325)	(41,302,508)	17,316,528		

11,504,361 performance options were issued during the year and shall vest and become exercisable into shares at any time on and from the earlier of the date that the vesting conditions are satisfied.

The vesting conditions are DroneShield achieving \$200 million of revenue or customer cash receipts in any rolling twelve-month period from the date of the issue of the options, or a change of control event, and terminates on the expiry date.

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

Note 30. Share-based payments (continued)

Option class	Grant date(s)	Number of options					Closing balance	Average grant date fair value
		Opening balance	Granted	Lapsed	Exercised			
V	27/05/2021	5,000,000	-	-	(5,000,000)	-	\$0.0600	
W	22/06/2021	450,000	-	-	(450,000)	-	\$0.0651	
Y	05/01/2022 - 19/01/2022	850,000	-	-	(100,000)	750,000	\$0.0719	
Performance 2023	18/04/2023 - 20/04/2023	700,000	-	-	(700,000)	-	\$0.3004	
AA	16/06/2022 - 03/08/2022	500,000	-	-	(175,000)	325,000	\$0.1059	
AB	22/07/2022	500,000	-	-	-	500,000	\$0.1900	
AC	18/04/2023 - 20/04/2023	3,070,000	-	(105,000)	(2,450,000)	515,000	\$0.1037	
AD	12/07/2023	100,000	-	-	(100,000)	-	\$0.0724	
AE	03/11/2023 - 22/12/2023	300,000	-	(100,000)	-	200,000	\$0.1041	
AF	17/01/2024	-	5,850,000	-	(5,850,000)	-	\$0.1513	
AG	14/02/2024 - 15/02/2024	-	519,000	-	-	519,000	\$0.7600	
AH	26/03/2024	-	20,000	-	-	20,000	\$0.2553	
Performance 2024	15/01/2024 - 17/12/2024	-	46,510,000	(105,000)	-	46,405,000	\$0.4374	
		<u>11,470,000</u>	<u>52,899,000</u>	<u>(310,000)</u>	<u>(14,825,000)</u>	<u>49,234,000</u>		

46,510,000 performance options were issued and shall vest and become exercisable into shares at any time on and from the earlier of the date that the vesting conditions are satisfied:

- 45,660,000 performance options are subject to the following vesting conditions being satisfied: DroneShield achieving \$200 million of revenue or customer cash receipts in any rolling twelve-month period from the date of the issue of the options, or a change of control event, and terminates on the expiry date.
- 850,000 performance options are subject to the following vesting conditions being satisfied: DroneShield achieving \$50 million of revenue or customer cash receipts in any rolling twelve-month period from the date of the issue of the options, or a change of control event, and terminates on the expiry date.

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

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

Class	Expiry date	Exercise price	Expected volatility %	Dividend yield %	Risk-free interest rate %	Expenses '000
Performance 2025	31/03/2028 - 31/03/2030	\$0.00	-	-	-	\$7,235
Performance 2024	19/01/2029 - 31/12/2029	\$0.00	-	-	-	<u>\$16,276</u>
						<u>\$23,511</u>

Accounting policy

Share-based payments

Equity-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.

Note 30. Share-based payments (continued)

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the 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 Group 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.

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 Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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.

Key estimate and judgement

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were 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.

Note 31. Events after the reporting period

On 23 January 2026 a total of 9,224,361 Performance Options with various expiry dates vested following the Company achieving the milestone of \$200 million in cash receipts within a rolling 12-month period.

The vesting of these options represents a non-adjusting event. As a result, the remaining unrecognised share-based payment expense associated with these options will be recognised in the 2026 financial year. There is no impact on the Group's financial position as at 31 December 2025.

No other matter or circumstance has arisen since 31 December 2025 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Set out below is relevant information relating to entities that are consolidated in the consolidated financial statements at the end of the financial year as required by the Corporations Act 2001 (s.295(3A)(a)).

Section 295 (3A) of the Corporation Acts 2001 requires that the tax residency of each entity which is included in the Consolidated Entity Disclosure Statement (CEDS) be disclosed. In the context of an entity which is an Australian resident, "Australian resident" has the meaning provided in the Income Tax Assessment Act 1997. The determination of tax residency involves judgment as the determination of tax residency is highly fact dependent and there are currently several different interpretations that could be adopted, and which could give rise to a different conclusion on residency.

In determining tax residency, the Group has applied the following interpretations:

- **Australian tax residency**
The Group has applied current legislation and judicial precedent, including having regard to the Commissioner of Taxation's public guidance in Tax Ruling TR 2018/5.
- **Foreign tax residency**
The Group has applied current legislation and where available, judicial precedent in the determination of foreign tax residency. The Group has used independent tax advisers in foreign jurisdictions to assist in its determination of tax residency to ensure applicable foreign tax legislation has been complied with.

Entity name	Entity type	Place formed / Country of incorporation	Ownership interest %	Tax residency
DroneShield Limited	Body Corporate	Australia	100%	Australia and United States of America ¹
DroneShield Group Pty Ltd	Body Corporate	Australia	100%	Australia
DroneShield Corporation Pty Ltd	Body Corporate	Australia	100%	Australia
DroneShield Defence Services Pty Ltd	Body Corporate	Australia	100%	Australia
DroneShield LLC	Body Corporate	United States of America	100%	Australia and United States of America ²
DroneShield B.V.	Body Corporate	The Netherlands	100%	Australia and Netherlands ³
DroneShield Belgium B.V.	Body Corporate	Belgium	100%	Australia and Belgium ³
DroneShield Defense Services LLC	Body Corporate	United States of America	100%	Australia and United States of America ³

- (1) As DroneShield Limited is an Australian incorporated entity, it is regarded as an Australian tax resident company. In June 2016, DroneShield Limited completed an exchange agreement acquiring 100% of DroneShield LLC, a US Limited Liability Company. Under the US Taxation Code, DroneShield Limited is also treated as a US Corporation for US tax purposes.
- (2) DroneShield LLC is a Delaware incorporated entity and considered a US tax resident company. DroneShield LLC is also regarded as an Australian tax resident company due to central management and control being based in Australia.
- (3) The assessment has been made on the basis that the default position under local laws is that incorporated companies are residents, as well as Australian taxation ruling TR 2018/5 deeming these subsidiaries as Australian residents due to its central management and control being in Australia. Analysis of treaty relief will be considered once these subsidiaries are fully operational.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards Accounting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2025 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the information disclosed in the attached consolidated entity disclosure statement is true and correct.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Peter James
Independent Non-Executive Chairman

25 February 2026
Sydney NSW

Independent Auditor’s Report to the Members of DroneShield Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of DroneShield Limited (“the Company”) and its controlled entities (“the Group”), which comprises the consolidated statement of financial position as at 31 December 2025, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, the consolidated entity disclosure statement and the directors’ declaration.

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

- (a) giving a true and fair view of the Group’s financial position as at 31 December 2025 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Revenue Recognition (Note 5)	
<p>The Group recognised total revenue of \$216,547,000 during the year ended 31 December 2025 (2024: \$57,529,000)</p> <p>Given the complexity within the Groups’ revenue recognition policies including the application of <i>AASB 15: Revenue from Contracts with Customers</i> (“AASB 15”), we identified this as a Key Audit Matter.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <p>Evaluating the appropriateness of the Group’s revenue recognition accounting policy to assess compliance with AASB15.</p>

Key Audit Matter	How our audit addressed the key audit matter
Revenue Recognition (Note 5) continued	
	<p>On a sample basis we tested revenue transactions recorded during the year, evaluating managements assessments and reviewed related contracts and other documentation to assess whether revenue recognised was in accordance with the requirements of AASB15.</p> <p>We also assessed the adequacy of the disclosures within the financial statements.</p>
Existence and Valuation of Inventory (Note 11)	
<p>At 31 December 2025, the Group held inventory with a carrying value of \$78,944,000 (2024: \$66,678,000).</p>	<p>Our audit procedures included but were not limited to the following:</p>
<p>As detailed in note 11 of the financial statements, inventories are valued at the lower of cost and net realisable value. Judgement is involved in estimating the net realisable value of inventory as it requires estimating the future sales volumes and prices for specific inventory lines.</p>	<p>Observation of the balance date inventory counts including observation of count procedures and related controls.</p> <p>Reconciliation of the physical inventory count records to the accounting inventory listing at balance date.</p>
<p>We focussed on this area as a key audit matter due to the material value of this balance.</p>	<p>Testing a sample of inventory items to assess whether the carrying value was recorded at lower of cost or net realisable value in accordance with AASB 102: Inventories.</p> <p>We reviewed and tested management's assessment of inventory obsolescence.</p> <p>We reviewed the accounting policies adopted by the Group for inventory, including the disclosures in the financial statements for compliance with the requirements of accounting standards.</p>

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

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2025, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of:

- (a) the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- (b) the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*, and

for such internal control as the directors determine is necessary to enable the preparation of:

- (c) the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- (d) the consolidated entity disclosure statement that is true and correct is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 26 of the directors' report for the year ended 31 December 2025.

In our opinion, the Remuneration Report of DroneShield Limited for the year ended 31 December 2025 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

HLB Mann Judd

HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants

Sydney, NSW
25 February 2026



N J Guest
Director

The shareholder information set out below was applicable as at 19 February 2026.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	22,972	1.10	-	-
1,001 to 5,000	15,146	4.21	1	0.04
5,001 to 10,000	4,429	3.70	4	0.35
10,001 to 100,000	5,023	15.16	31	18.07
100,001 and over	381	75.83	22	81.54
	<u>47,951</u>	<u>100.00</u>	<u>58</u>	<u>100.00</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
BNP PARIBAS NOMINEES PTY LTD <CLEARSTREAM>	269,123,355	29.46
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	145,078,517	15.88
CITICORP NOMINEES PTY LIMITED	57,521,139	6.30
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	44,220,411	4.84
BNP PARIBAS NOMS PTY LTD	26,188,180	2.87
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT>	13,618,395	1.49
BETA GAMMA PTY LTD	13,000,000	1.42
MR PAUL JONATHAN SHAW	10,455,500	1.14
REDMOND ANDREW MCCLINTOCK	6,774,350	0.74
FINCLEAR SERVICES PTY LTD <SUPERHERO SECURITIES A/C>	5,116,502	0.56
P & B SHAW FT CB PTY LTD	4,170,775	0.46
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,962,369	0.43
MR SHENCHEN GU	1,828,407	0.20
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,801,539	0.20
MR BARRY MARTIN LAMBERT	1,800,000	0.20
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING A/C>	1,795,002	0.20
S R BENNETT PTY LTD <D&S BENNETT PTY LTD SF A/C>	1,685,062	0.18
PAUL MARTIN CENOZ	1,520,000	0.17
MR RAFFAEL RETO BLATTNER	1,500,000	0.16
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,466,177	0.16
	<u>612,625,680</u>	<u>67.06</u>

The number of unquoted equity securities (Options) on issue as at 31 December 2025 was 17,316,528 held by 83 holders.

4,235 holders held less than a marketable parcel of DRO securities, based on the closing market price as of 19 February 2026 of \$3.16.

Substantial holders

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 (Cth) are:

	Ordinary shares	
	Number held	% of total shares issued
FMR LLC	65,503,305	7.17
State Street Corporation	57,890,534	6.34
Vanguard Group (The Vanguard Group, Inc. and its controlled entities)	47,669,725	5.22

Mr Oleg Vornik holds 902,528 unquoted equity securities (Options), representing 7.92% of the total unquoted equity securities (Options) as of 19 February 2026.

There are no restricted securities on issue.

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

Unlisted Options do not have voting rights.

There is no on-market buy-back scheme in operation for the Company's quoted securities.