DroneShield Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	DroneShield Limited
ABN:	26 608 915 859
Reporting period:	For the half-year ended 30 June 2026
Previous period:	For the half-year ended 30 June 2025

2. Results for announcement to the market

		$'000		$'000
Revenues from ordinary activities	up	74%	to	125,767
Loss from ordinary activities after tax attributable to the owners of DroneShield Limited	down	34,354	to	(32,231)
Loss for the half-year attributable to the owners of DroneShield Limited	down	34,354	to	(32,231)

Comments
The loss for the Group after providing for income tax amounted to ($32,231,000) (30 June 2025: profit of $2,123,000).

3. Net tangible assets

	30 June 2026 $	31 December 2025 $
Net tangible assets per ordinary security	0.28	0.33

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 period.

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

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 were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of DroneShield Limited for the half-year ended 30 June 2026 is attached.

12. Signed

Signed ___________________________ Date: 26 August 2026

Hamish McLennan
Independent Non-Executive Chairman
Sydney NSW

DRONESHIELD

Half-Year Report

For the half-year ended
30 June 2026

Image: RfRecon – DroneShield's Flagship Next-Generation Solution

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

The Directors present their report, together with the financial statements, for 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 half-year ended 30 June 2026 (‘Interim Period’).

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

Angus Bean	CEO and Managing Director (from 8 April 2026)
Hamish McLennan	Independent Non-Executive Chairman (Director from 1 May 2026, Chairman from 28 May 2026)
Jethro Marks	Independent Non-Executive Director
Richard Joffe	Independent Non-Executive Director
Simone Haslinger	Independent Non-Executive Director
Lee Goddard CSC	Independent Non-Executive Director (from 1 July 2026)
Oleg Vornik	CEO and Managing Director (until 8 April 2026)
Peter James	Independent Non-Executive Chairman (until 28 May 2026)

Principal activities
The principal activity of the Company is the development, commercialisation and sale of counter-drone hardware and software technology.

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

Review of operations and financial results
For the half-year ended 30 June 2026 the Group achieved record revenue of $125.8 million, up 74% on the prior corresponding period, and reported a statutory loss after tax of $32.2 million compared to a profit of $2.1m in the prior corresponding period. Further details of the Group’s results for the half-year ended 30 June 2026 are provided in the Operational & Financial Review on pages 3 to 5 of the half-year report.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Group during the Interim Period.

Matters subsequent to the end of the financial half-year
No matter or circumstance has arisen since 30 June 2026 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.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2026/183, 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.

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 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Hamish McLennan

Hamish McLennan
Independent Non-Executive Chairman

26 August 2026
Sydney NSW

Industry Overview

2026 has seen the continuation of the conflict in Ukraine, multiple conflict points across the Middle East, major public events such as the 2026 FIFA World Cup in the United States, and an increasing frequency of reported drone-related incidents globally. These developments have reinforced awareness of the need for counter-drone solutions across military, government and commercial markets. In response, budget allocations, confirmed spending programmes and regulatory changes have increased across multiple geographies and market segments, supporting broader adoption of counter-drone solutions. Against this backdrop, DroneShield continues to develop and commercialise multi-layered hardware and software counter-drone solutions for these markets.

Financial and Operational Highlights

The Interim Period recorded strong top-line revenue growth of 74% on the prior corresponding period, supported by strong growth in recurring revenue as the Company increased its focus on software-enabled hardware sales with longer-term subscription and service revenue from systems upgrades and ongoing services.

Gross margin reduced as a result of changes in product mix between DroneShield solutions and third-party hardware, currency movements, and the impairment of raw materials identified during the relocation to the new production facility and during the implementation of a new ERP system.

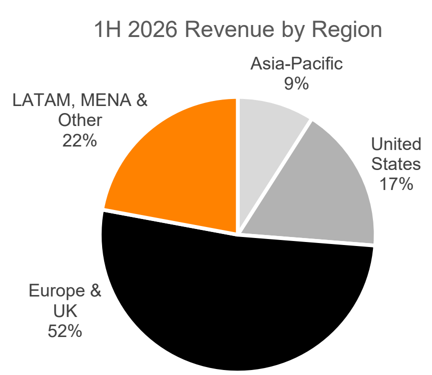
The Company continued to invest in support of its growth strategy, including preparations for the planned launch of DroneShield's next generation of hardware and software solutions. There was also an expansion of administrative and corporate functions associated with the growth and scale of the Company. The increase in employee numbers across technology, research and development and corporate functions contributed to higher underlying operating expenses.

The combination of lower gross margin, increased employee numbers and higher operating costs resulted in an underlying EBITDA loss of $12.4 million, reflecting the investment being made to support production scale, product development and global operating capability.

Metric	1H 2026	1H 2025	Change
Revenue	$125.8m	$72.3m	Increase of 74%
Recurring Revenue	$11.5m	$3.5m	Increase of 229%
Gross Margin	60.0%	65.3%	Decrease by 5.3 percentage points
Underlying EBITDA	($12.4m)	$8.0m	Decrease of $20.4m
Statutory (Loss)/Profit After Tax	($32.2m)	$2.1m	Decrease of $34.3m
Net Operating Cash Outflow	($10.3m)	($8.7m)	Increase of $1.6m
Cash and Term Deposits	$180.0m	$203.8m	Decrease of $23.8m
Employees as at 30 June	535	363	Increase of 172 employees

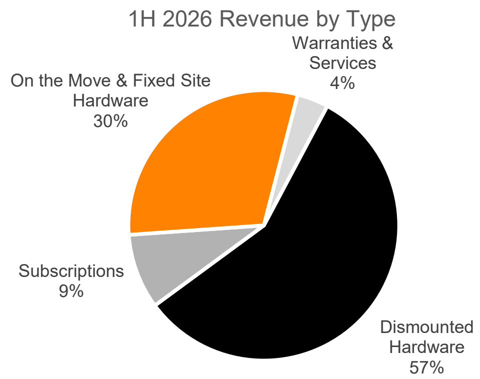
Revenue Diversification

During the Interim Period, DroneShield continued to broaden its revenue base across geographies, products and end-user segments:



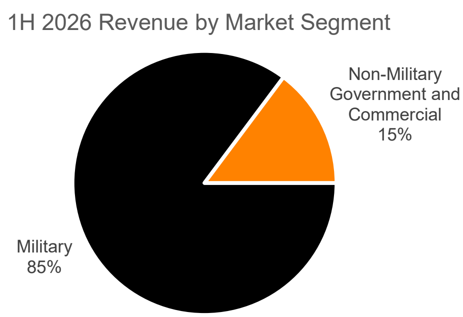
Geographic Highlights

- Across regions, the Company received regular and repeat orders from Tier 1 military and government end-users, reflecting expanded use-cases and increased awareness of drone-related threats.
- Reorders and scope expansions are particularly strong among existing end-users in Europe and the UK.
- In the United States, the Company continued to benefit from increased utilisation of centralised inter-agency procurement panels, with DroneShield becoming an approved supplier on such portals.
- Material contracts announced in the Interim Period comprised those for a Western military end-customer in February 2026 and US Department of War's Joint Interagency Task Force 401 in June 2026.



Product Highlights

- For the Interim Period, hardware revenue was 87% of the Group's revenue compared to 90% in the prior corresponding period.
- The Company continued its strategy to increase the sale of software-enabled units. For the Interim Period, DroneGuns were 17% of hardware revenue, compared to 23% in 1H 2025, and 47% in FY2024.
- An increasing number of active software-enabled units in the field (currently over 4,000) has resulted in recurring revenue increasing by 229%, representing 9.2% of revenue compared to 4.9% in the prior corresponding period.
- Subscription revenue is anticipated to continue to increase in contribution through the launch of DroneShield's next generation AI-enabled solutions, as well as additional subscription-based services.

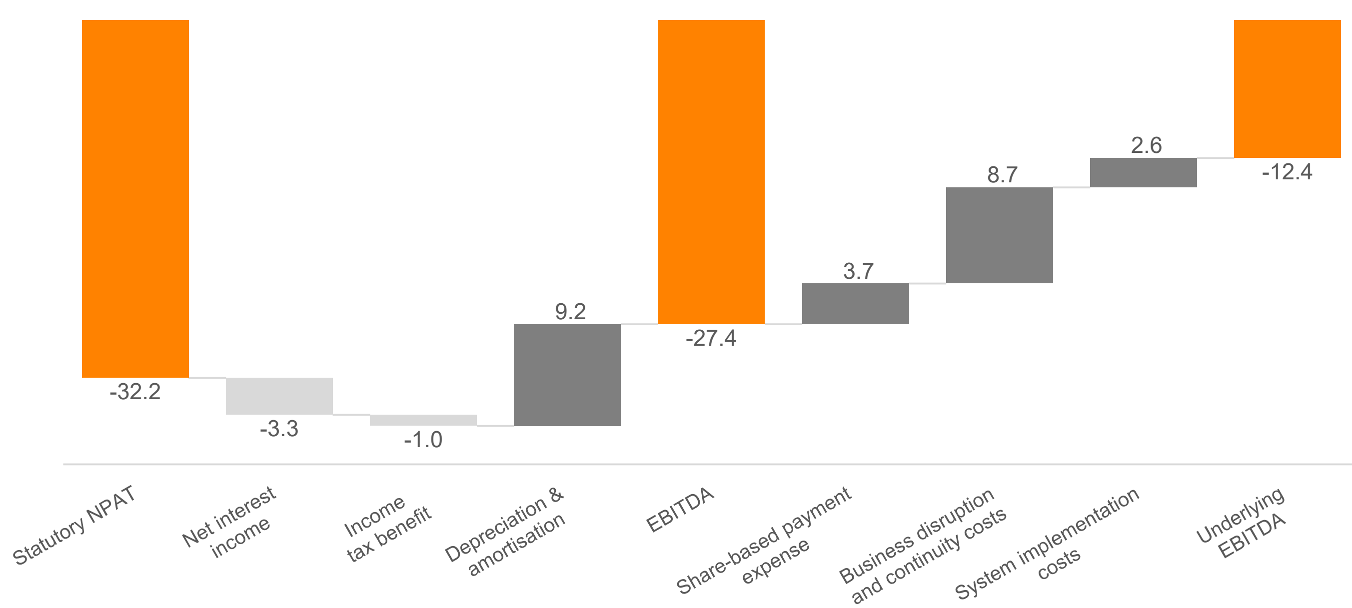


Segment Highlights

- Revenue remains weighted towards military end-users, who recognise the high urgency for counter-drone solutions. Procurement is predominantly via federal or central government funding, and can have longer, larger and complex tender processes.
- Non-military and commercial markets, including transportation hubs, public safety locations, critical infrastructure, commercial assets and specialist applications, are developing from a lower base and typically involve smaller and more frequent order cycles.

Earnings Reconciliation

The following chart sets out a reconciliation from Statutory NPAT to Underlying EBITDA for the Interim Period:



These items reconcile Statutory EBITDA to Underlying EBITDA and are separately identified because they are not considered reflective of underlying earnings performance:

- Share-based payment expense: This item includes the non-cash accounting expense for performance options issued for remuneration plans in current and prior years. Current performance options have been structured to include staggered performance targets, each with a two-stage vesting schedule over longer timeframes. The expense will be recognised over the expected vesting period.

- Business disruption and continuity costs: Following events which took place in November 2025, the Company undertook a Governance Review, the findings of which were publicly shared in February 2026. In response to those events, a continuity plan was introduced to maintain workforce capability and operational effectiveness and mitigate the impact of business disruption. In May 2026, the Company received notice from ASIC requiring it to provide assistance in connection with an investigation under the Corporations Act. The business disruption of such non-operational matters has resulted in expenses across external legal, governance and other specialist providers.
- System implementation costs: During the Interim Period the Company introduced and upgraded software systems to provide enterprise-wide support and collaboration across sales, procurement, production, logistics, finance and administration functions. These systems represent a necessary investment to support future growth, although their implementation costs are considered non-recurring in nature.

Cash Flow and Liquidity

As at 30 June 2026, cash and term deposits totalled $180.0 million. The Company remains debt-free. Net operating cash outflow for the Interim Period was ($10.3) million compared to ($8.7) million in 1H 2025, reflecting higher inventory investment ahead of next-generation product launches, and continued investment in research and development, manufacturing capacity and facilities.

The Company has a tiered payment structure to optimise cash flow and manage credit risk. Tier 1 customers (which mostly relate to militaries or governments, or partners or resellers to creditworthy sovereign nations), recognised for their strategic importance and strong credit profiles, are generally granted standard 30 to 45 day payment terms from the date of delivery. 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.

Inventory Readiness and Production Scale

As at 30 June 2026, inventory was $85 million, including $19 million of finished goods. The increase in raw materials, particularly key componentry with a longer procurement lead time, reflects deliberate planning for next-generation product launches in the second half of 2026 and through 2027.

The Interim Period delivered key milestones in advancing the Company's growth strategy and expanding its global operational footprint. In January 2026, the Company completed the transition to a new 3,000 square metre production facility in Sydney and implemented a new Enterprise Resource Planning (‘ERP’) system. The ERP implementation has supported greater collaboration across the business, including improved commonality across key inventory items and reducing wastage.

DroneShield initiated its European production capability with the first in-region goods delivered in June 2026 which demonstrates the Company’s commitment to continued strong growth from the region.

Strategic Partnerships

During the Interim Period, DroneShield continued to expand its strategic partnerships, announcing seven memoranda of understanding or collaborations. These comprised arrangements with Intelic (Netherlands), Origin Robotics (Latvia), Overland AI (United States), Terma (Denmark), Airspace Link (United States), Parsons (United States) and Defenture (Netherlands) supporting an expanded offering across the multi-layered counter-drone ecosystem.

Leadership Changes and Governance Uplift

On 8 April 2026, DroneShield announced that Oleg Vornik had stepped down as CEO and Managing Director, with Angus Bean appointed to the role. Mr Bean has been with the Company for 10 years and previously held senior executive roles including Chief Product Officer and Chief Technology Officer. The Company also announced the appointment of Hamish McLennan as a Director and, subsequently, as Chairman on 28 May 2026, following Peter James’ retirement from the Board at the conclusion of the Annual General Meeting. Lee Goddard was announced as an additional Non-Executive Director, joining the Board effective 1 July 2026. The Board continues to assess its skills matrix, experience and future capability requirements.

Following its entry into the S&P/ASX200 in September 2025, the Company undertook a major review of its governance policies and processes. This resulted in the February 2026 announcement of a revised Trading Policy and Disclosure Policy, as well as the introduction of a Minimum Shareholding Policy for the Board and Key Management Personnel.

Auditor's Independence Declaration

To the directors of DroneShield Limited:

As lead auditor for the review of the financial report of DroneShield Limited for the half-year ended 30 June 2026, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

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

Sydney, NSW	**A G Smith**
26 August 2026	**Director**

HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215
Level 5, 10 Shelley Street Sydney NSW 2000 Australia
T: +61 (0)2 9020 4000 **E:** mailbox@hlbnsw.com.au

	Note	Consolidated 30 June 2026 $'000	Consolidated 30 June 2025 $'000
Revenue			
Revenue from Contracts with Customers	4	125,767	72,324
Other Income		-	237
Interest Income		3,786	4,243
Expenses	5		
Cost of Goods Sold		(50,265)	(25,071)
Employee Benefits		(56,082)	(21,126)
Corporate and Professional Expenses		(15,506)	(7,827)
Sales and Marketing Costs		(12,767)	(5,959)
Business Systems		(8,190)	(2,457)
Occupancy Costs		(1,140)	(599)
Research and Development Expenses		(1,859)	(1,580)
Depreciation and Amortisation		(9,152)	(3,999)
Share-Based Payment Expense	17	(3,673)	(2,719)
Net Foreign Exchange (Losses)/Gain		(3,683)	24
Finance Cost		(472)	(290)
(Loss)/profit before income tax		(33,236)	5,201
Income tax benefit/(expense)		1,005	(3,078)
(Loss)/profit after income tax benefit/(expense) for the half-year attributable to the owners of DroneShield Limited		(32,231)	2,123
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(312)	(2,182)
Total comprehensive loss for the half-year attributable to the owners of DroneShield Limited		(32,543)	(59)
		$	$
Basic (loss)/earnings per share	6	(0.035)	0.002
Diluted (loss)/earnings per share	6	(0.035)	0.002

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

DRONESHIELD

	Note	Consolidated 30 June 2026 $'000	Consolidated 31 December 2025 $'000
Current Assets			
Cash and Cash Equivalents	7	145,977	103,388
Term and Other Deposits		32,504	106,102
Trade and Other Receivables		63,359	44,275
Inventories	8	85,038	78,944
Income Tax Receivable		1,736	2,177
Total Current Assets		328,614	334,886
Non-Current Assets			
Property, Plant and Equipment		32,996	29,209
Right-Of-Use Assets		13,861	10,770
Intangible Assets	9	31,945	20,146
Deferred Tax Asset		16,831	16,107
Term and Other Deposits		1,515	1,067
Total Non-Current Assets		97,148	77,299
Total Assets		425,762	412,185
Current Liabilities			
Trade and Other Payables		47,698	27,486
Contract Liabilities	10	20,092	23,583
Lease Liabilities		1,928	3,260
Income Tax Payable		-	400
Provisions		6,660	3,224
Total Current Liabilities		76,378	57,953
Non-Current Liabilities			
Contract Liabilities	10	23,217	4,083
Lease Liabilities		14,723	10,995
Provisions		3,328	2,538
Total Non-Current Liabilities		41,268	17,616
Total Liabilities		117,646	75,569
Net Assets		308,116	336,616
Equity			
Issued Capital	11	314,117	313,747
Reserves	12	1,614	11,610
Accumulated (Losses)/Earnings		(7,615)	11,259
Total Equity		308,116	336,616

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

Consolidated	Issued capital $'000	Reserves $'000	Accumulated (losses)/ earnings $'000	Total equity $'000
Balance at 1 January 2025	313,149	10,088	(11,650)	311,587
Profit after income tax expense for the half-year	-	-	2,123	2,123
Other comprehensive income for the half-year, net of tax	-	(2,182)	-	(2,182)
Total comprehensive income/(loss) for the half-year	-	(2,182)	2,123	(59)
Transactions with owners in their capacity as owners:				
Shares issued from options exercised	238	-	-	238
Share-based payments (note 17)	-	2,719	-	2,719
Transfer from share-based payments reserve to accumulated losses	-	(349)	349	-
Balance at 30 June 2025	313,387	10,276	(9,178)	314,485

Consolidated	Issued capital $'000	Reserves $'000	Accumulated (losses)/ earnings $'000	Total equity $'000
Balance at 1 January 2026	313,747	11,610	11,259	336,616
Loss after income tax benefit for the half-year	-	-	(32,231)	(32,231)
Other comprehensive loss for the half-year, net of tax	-	(312)	-	(312)
Total comprehensive (loss)/income for the half-year	-	(312)	(32,231)	(32,543)
Transactions with owners in their capacity as owners:				
Repayment of limited recourse loan (note 11)	370	-	-	370
Share-based payments (note 17)	-	3,673	-	3,673
Transfer from share-based payments reserve to accumulated losses	-	(13,357)	13,357	-
Balance at 30 June 2026	314,117	1,614	(7,615)	308,116

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

	Note	Consolidated 30 June 2026 $'000	30 June 2025 $'000
Cash flows from operating activities			
Receipts from customers		133,626	60,714
Payments to suppliers and employees		(143,951)	(69,137)
Grants and other incentives received		-	165
Income taxes paid		(13)	(478)
Net cash used in operating activities		(10,338)	(8,736)
Cash flows from investing activities			
Payments for property, plant and equipment		(7,496)	(5,188)
Payments for intangible assets		(13,815)	(6,804)
Payments for term deposits		(29,087)	(36,879)
Proceeds from maturity of term deposits		102,660	156,965
Interest received on cash deposits		4,338	4,706
Net cash from investing activities		56,600	112,800
Cash flows from financing activities			
Proceeds from options exercised		370	239
Interest on lease liabilities and other finance costs paid		(451)	(257)
Repayments of lease liabilities, net of lease incentive		(971)	637
Net cash (used in)/from financing activities		(1,052)	619
Net increase in cash and cash equivalents		45,210	104,683
Cash and cash equivalents at the beginning of the financial half-year		103,388	62,619
Effects of exchange rate changes on cash and cash equivalents		(2,621)	(1,532)
Cash and cash equivalents at the end of the financial half-year	7	145,977	165,770

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

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 half-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 is:

Level 5
126 Phillip Street
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities is 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 26 August 2026.

Note 2. Material accounting policy information

These general purpose financial statements for the half-year reporting period ended 30 June 2026 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2025 and any public announcements made by the Company during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period, 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 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 for the half-year ended 30 June 2026 and are not expected to have a significant impact for the full financial year ending 31 December 2026.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Change in the presentation of Statement of Profit or Loss and Other Comprehensive Income

During the current period, the Group changed its presentation of operating expenses in the statement of profit or loss from a function-based method to a nature-based method. In recent years, the Group has experienced significant growth and expansion in the scale, complexity, and structure of its operations, and management expects this evolution to continue. As a result, management considers that a nature-based presentation provides more relevant, reliable, and meaningful information regarding the Group's financial performance and will enhance comparability between reporting periods as the business continues to develop.

The change has no impact on the Group's reported revenue, net profit after tax, total assets, liabilities, or equity for any of the periods presented. In accordance with applicable accounting standards, comparative amounts have been reclassified from a function-based presentation to a nature-based presentation to align with the current period presentation and improve comparability across periods.

The change also positions the Group for its future adoption of *AASB 18 Presentation and Disclosure in Financial Statements* (effective for annual reporting periods beginning on or after 1 January 2027).

Note 3. 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 and commercialisation of hardware and software technology for drone detection and security.

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 30 June 2026	USA $'000	Australia and Rest of World $'000	Elimination $'000	Total $'000
Hardware and shipping	19,729	95,266	(5,550)	109,445
Warranty	848	578	-	1,426
Subscription	896	10,626	-	11,522
Services	409	2,965	-	3,374
Total revenue from customers	21,882	109,435	(5,550)	125,767
Non-current assets				
Segment assets	2,212	79,332	(1,227)	80,317

Segment performance 30 June 2025	USA $'000	Australia and Rest of World $'000	Elimination $'000	Total $'000
Hardware and shipping	11,799	56,633	(3,006)	65,426
Warranty	879	203	-	1,082
Subscription	1,570	1,975	-	3,545
Services	60	2,211	-	2,271
Total revenue from customers	14,308	61,022	(3,006)	72,324
Non-current assets				
Segment assets	1,707	32,943	(1,139)	33,510

Note 4. Revenue

	Consolidated 30 June 2026 $'000	Consolidated 30 June 2025 $'000
Revenue from contracts with customers		
Hardware and shipping	109,445	65,426
Warranty	1,426	1,082
Subscription	11,522	3,545
Services	3,374	2,271
	125,767	72,324

Note 4. Revenue (continued)

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

	Consolidated	
	30 June 2026 $'000	30 June 2025 $'000
Customer type		
Direct sales	14,261	11,677
Distributors	111,506	60,647
	125,767	72,324
Timing of revenue recognition		
Revenue generated at a point in time	110,172	67,697
Revenue generated over time	15,595	4,627
	125,767	72,324

Note 5. Expenses

	Consolidated	
	30 June 2026 $'000	30 June 2025 $'000
(Loss)/profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Property, plant and equipment	5,477	2,355
Right-of-use assets	1,621	909
Intangible assets	2,054	735
Total depreciation and amortisation expense	9,152	3,999
Superannuation expense		
Defined contribution and superannuation expense	3,187	1,720
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	52,895	19,406

Note 6. Earnings per share

	Consolidated	
	30 June 2026 $'000	30 June 2025 $'000
(Loss)/profit after income tax attributable to the owners of DroneShield Limited	(32,231)	2,123

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	920,928,687	872,238,058
Adjustments for calculation of diluted earnings per share:		
Shares issuable in relation to equity settled share-based payment options (a)	-	50,058,509
Weighted average number of ordinary shares used in calculating diluted earnings per share	920,928,687	922,296,567

(a) As at 30 June 2026, 13,294,933 weighted average unlisted options on issue were considered anti-dilutive for the period presented and are excluded in the diluted earnings per share calculation.

	$	$
Basic (loss)/earnings per share	(0.035)	0.002
Diluted (loss)/earnings per share	(0.035)	0.002

Note 7. Cash and cash equivalents

	Consolidated	
	30 June 2026 $'000	31 December 2025 $'000
Current assets		
Cash at bank and on hand	55,977	53,250
Short-term deposits	90,000	50,138
	145,977	103,388

In addition to the current cash and short-term deposits, the Group also has $34,019,000 (31 Dec 2025: $107,169,000) in longer-term cash deposits, bringing the total cash reserves to $179,996,000 (31 Dec 2025: $210,557,000). These amounts are classified as “Term and Other Deposits” in the consolidated statement of financial position.

Note 8. Inventories

	Consolidated	
	30 June 2026 $'000	31 December 2025 $'000
Current assets		
Raw materials	66,241	53,314
Finished goods	18,797	25,630
	85,038	78,944

Inventories recognised as expenses during the half-year amounted to $50,265,000 (30 June 2025: $25,071,000). The cost of goods sold includes inventory impairment recognised of $2,844,000 (30 June 2025: $49,000 Impairment reversal). The inventory balances reconciled in the above table are net of impairment provisions.

Note 9. Intangible assets

	Consolidated	
	30 June 2026 $'000	31 December 2025 $'000
Non-current assets		
Purchased software - at cost	51	51
Less: Accumulated amortisation	(36)	(33)
	15	18
Internally generated software - at cost	15,678	10,494
Less: Accumulated amortisation	(3,277)	(1,730)
	12,401	8,764
Prototypes and product designs - at cost	4,708	4,708
Less: Accumulated amortisation	(1,285)	(782)
	3,423	3,926
Ongoing development costs (WIP) - at cost	16,106	7,438
Total Intangible Assets	31,945	20,146

Note 9. Intangible assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year 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 2025	25	2,584	1,903	1,907	6,419
Additions	5	-	-	15,994	15,999
Transfers from WIP	-	7,706	2,757	(10,463)	-
Amortisation expense	(12)	(1,526)	(734)	-	(2,272)
Balance at 31 December 2025	18	8,764	3,926	7,438	20,146
Additions	-	-	-	13,853	13,853
Transfers from WIP	-	5,185	-	(5,185)	-
Amortisation expense	(3)	(1,548)	(503)	-	(2,054)
Balance at 30 June 2026	15	12,401	3,423	16,106	31,945

Note 10. Contract liabilities

Contract liabilities by type of deferred revenue are as follows:

	Consolidated	
	30 June 2026 $'000	31 December 2025 $'000
Current liabilities		
Customer Deposits	8,980	4,769
Subscription	9,349	12,867
Services	530	3,350
Warranty	1,233	2,597
	20,092	23,583
Non-current liabilities		
Subscription	19,151	2,875
Warranty	4,066	1,208
	23,217	4,083
Total Contract Liabilities	43,309	27,666

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

	$'000
Balance at 1 January 2025	26,722
Transfer to revenue - included in the opening balance	(22,779)
Disposals	-
Payments received in advance for new contracts	23,723
Balance at 31 December 2025	27,666
Transfer to revenue - included in the opening balance	(19,067)
Disposals	(374)
Payments received in advance for new contracts	35,084
Balance at 30 June 2026	43,309

Note 11. Issued capital

	Consolidated			
	30 June 2026 Shares	31 December 2025 Shares	30 June 2026 $'000	31 December 2025 $'000
Ordinary shares - fully paid	924,090,778	913,417,667	314,117	313,747

Note 11. Issued capital (continued)

Movements in ordinary share capital

Details	Shares	$'000
Balance as at 1 January 2025	872,115,159	313,149
Issue of ordinary shares - options exercise	40,327,960	249
Issue of ordinary shares - cashless exercise	339,548	-
Issue of ordinary shares - loan funded	635,000	-
Repayment of limited recourse loan	-	349
Balance as at 31 December 2025	913,417,667	313,747
Issue of ordinary shares – options exercised	10,673,111	-
Repayment of limited recourse loan	-	370
Balance as at 30 June 2026	924,090,778	314,117

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.

Note 12. Reserves

	Consolidated	
	30 June 2026	31 December 2025
	$'000	$'000
Foreign currency reserve	(654)	(342)
Share-based payments reserve	2,268	11,952
	1,614	11,610

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.

Note 12. Reserves (continued)

Movements in reserves
Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Foreign currency $'000	Share-based payments $'000	Total $'000
Balance as at 1 January 2025	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	(342)	11,952	11,610
Foreign currency translation	(312)	-	(312)
Share-based payments	-	3,673	3,673
Transfer from share-based payments reserve to accumulated losses	-	(13,357)	(13,357)
Balance at 30 June 2026	(654)	2,268	1,614

Note 13. Dividends

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

Note 14. Contingent liabilities

DroneShield Ltd (ASX:DRO) is providing assistance to Australian Securities and Investments Commission ('ASIC') in connection with an investigation under the Corporations Act. DroneShield will cooperate fully with the investigation regarding announcements and information provided to the Australian Securities Exchange between 1 and 20 November 2025, and trading in DroneShield shares between 6 and 12 November 2025 (inclusive). It is not clear what action, if any, may result from ASIC's investigation. Accordingly, the Group is unable to determine whether any obligation exists or to reliably estimate any potential financial effect arising from the investigation.

Note 15. Commitments

At 30 June 2026, contractual agreements existed to pay suppliers $44,277,000 (31 December 2025: $39,375,000). This predominantly relates to purchases of inventory.

Note 16. Related party transactions

Parent entity
DroneShield Limited is the parent entity.

Key Management Personnel
Remuneration arrangements of key management personnel, including Directors, will be disclosed in the Group's annual financial report.

Key Management Personnel – Other Transactions
During the period, the Company entered into a confidential settlement with a member of Key Management Personnel. An expense of $3,000,000 has been recognised in profit or loss within Corporate and Professional Expenses. This payment did not comprise remuneration and is therefore excluded from Key Management Personnel compensation disclosures prepared in accordance with AASB 124 *Related Party Disclosures*. No amounts were outstanding at reporting date in relation to this settlement.

Note 16. Related party transactions (continued)

Transactions with related parties
Macquarie Technology Operations Pty Ltd provides data and hosting solutions. The company was a related party until 31 March 2026. Total transactions during the current half-year were $96,107 (30 June 2025: $0).

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

Loans to/from related parties outside the Group
There were no loans to or from related parties outside the Group at the current or previous reporting date.

Note 17. Share-based payments

The Group provides benefits to employees in the form of equity-settled share-based payment options via an Employee Incentive Option Plan. The value of the share-based payment options is determined by the fair value of the instruments granted. The value is recognised as an expense over the vesting period based on management's assumptions including the timing of vesting and expected lapse rate.

Incentive Option Plan	Performance Options	Options	Total
Outstanding at 1 January 2025	46,405,000	2,829,000	49,234,000
Granted during the period	11,504,361	-	11,504,361
Forfeited during the period	(1,490,000)	(629,325)	(2,119,325)
Exercised during the period	(39,371,833)	(1,930,675)	(41,302,508)
Outstanding at 31 December 2025	17,047,528	269,000	17,316,528
Granted during the period	8,112,117	-	8,112,117
Forfeited during the period	(753,672)	-	(753,672)
Exercised during the period	(10,673,111)	-	(10,673,111)
Outstanding at 30 June 2026	13,732,862	269,000	14,001,862

8,112,117 performance options were issued during 2026. The options will vest and become exercisable into ordinary shares once the relevant vesting conditions are satisfied, or earlier if a change of control event occurs.

The vesting conditions are based on the Company achieving revenue or cash receipts milestones of $300 million, $400 million and $500 million. For each milestone, 50% of the relevant options vest when the milestone is achieved, and the remaining 50% vest 12 months later. Any options that have not vested or been exercised will lapse on the applicable expiry date.

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

30 June 2026

Class	Grant Date	Expiry Date	Exercise Price $	Expected Volatility %	Dividend Yield %	Risk Free Interest Rate %	Average Grant Date Fair Value $
Performance 2026	26/03/2026 - 29/05/2026	30/06/2029 - 30/06/2030	-	-	-	-	3.8736

Note 17. Share-based payments (continued)

Share-Based Payment Expenses	30 June 2026 $'000	30 June 2025 $'000
Performance options expense	3,673	2,719

Note 18. Events after the reporting period

No matter or circumstance has arisen since 30 June 2026 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.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2026 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Hamish McLennan
Independent Non-Executive Chairman

26 August 2026
Sydney NSW

HLB MANN JUDD

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of DroneShield Limited ("the Company"), which comprises the consolidated statement of financial position as at 30 June 2026, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, including material accounting policy information and other explanatory information, and the directors' declaration, for the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2026 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the Directors for the Financial Report

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 30 June 2026 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

HLB Mann Judd

HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants

A G Smith
Director

Sydney, NSW
26 August 2026