

15 October 2018

ASX Announcement

**DRAGONTAIL SYSTEMS PRESENTS STRONG FINANCIAL
RESULTS FOR Q3 OF 2018**

Key Q3 Highlights:

- **Dragontail achieves strong quarterly revenue growth coupled with a drop in expenses for Q3 of 2018.**
- **Customer receipts over Q3 of 2018 more than triple compared to previous quarter and exceeds half a Million AUD.**
- **Shortly after the end of the quarter, Tiger Global Investments fund, an investment firm based in New York and currently manages over USD\$20 billion in assets, invests over \$6m AUD into Dragontail, at a 28% premium to the weighted average price over the 7 days prior to the investment.**
- **Dragontail's flagship products, The Full "Algo" and the Algo Light Platforms have been selected as the Brand standard solution, and for the first time this technology is becoming mandatory for all franchisees and the hundreds of PH stores in Canada (part of YUM!, the world's largest QSR Company).**
- **Dragontail receives purchase orders for over \$1.2M to initiate the QT Camera rollout plan across Australia and New Zealand markets.**
- **Dragontail continues to deepen its grip in Asia, with KFC Philippines' decision to go live in its first stores with Dragontail's Algo platform, for streamlining restaurant and delivery operations.**
- **Dragontail has launched its Total Technology solution in North America, containing the "Algo" platform along with a POS (Point Of Sale) system and an online and mobile ordering sales platform directly inserted into the POS.**
- **Dragontail has signed a Collaboration agreement with Weezmo Technologies Ltd, a unique company, that holds the exclusive proprietary software for issuance of digital invoices and the provision of remarketing and customer behavior analyses services to increase its customers' conversion.**
- **Dragontail accelerates US market potential penetration signing a Referral agreement with Restaurant Revolution Technologies Inc, whose flagship product ("Order One") allows consumers to engage with the merchant locations online, by mobile and by voice.**

15 October 2018 (Melbourne): Dragontail Systems Limited (ASX: DTS, the “Company” or “Dragontail”) is pleased to provide the market with its quarterly operational update covering the three months ended 30 September 2018 (Q3 2018). The Company is pleased with the performance during the quarter, demonstrating strong financial results, successful operational results, close relationships with leading food conglomerates around the globe, and promising pipeline of future projects. Dragontail has succeeded in securing its strong and solid position as a significant provider of technology solutions that maximize store operations in the QSR industry.

Q3 2018 financial Summary

The Appendix 4C quarterly report for the three months ended 30 September 2018 is attached. Summarized as follows:

- Strong revenue together with an impressive drop in expenses brings promising results at the end of Q3 of 2018.
- Customer receipts over Q3 exceeds half a million AUD (\$356k USD), representing a 220% growth compared to Q2 results.
- Based on the Q3 to Q2 comparison - Cash receipts more than tripled while at the same time the company expenses were 8.5% lower.
- Total cash usage (Net Cash Used from Operating Activities) in Q3 2018 of US\$1.2 million, was lower than forecast.

Tiger Global Investments fund invests in Dragontail. Following the end of the quarter, Tiger Global Investments has invested over \$6m AUD into Dragontail. The investment price of \$0.187 is at a 10% premium to the last closing share price of the Company and 28% premium to the weighted average price over the 7 days prior to the raise. Tiger Global Management, is an investment firm based in New York currently manages over USD\$20 billion in assets and has extensive experience investing in leading software as a service companies globally. The firm also has a number of investments levered to secular growth in restaurant spending and mobile app enabled food delivery. The investment is set to accelerate the Company’s installation, contract fulfillment and new AI technology endeavors

The Algo selected as the Mandatory solution for Pizza Hut Canada. The Company has signed a unique agreement with Pizza Hut Canada Company Inc., which is part of the world's largest QSR company, YUM!, designating Dragontail's technology as the brand mandated standard product for all PH stores in Canada. The agreement marks a major milestone since the Company was listed on the ASX, seeing the DTS technology go from winning over corporate and individual franchisees to being universally mandated in Canada by YUM! PH Canada currently consists of 360 stores, and expected to reach 400 stores by the end of 2019. The expectation is for the roll-out to be completed by the end of Q1 2019. As part of the Agreement, the new game changing product - "Driver sharing" - is offered to all franchisees as an optional add-on module.

Dragontail receives significant purchase order. DTS received purchase orders worth AUD\$1,219,403 during the quarter for the QT Camera system. For full details refer to the announcement on 6 September 2018.

Dragontail went live with its Algo platform at KFC'S first stores in the Philippines. KFC's decision was made following a successful pilot that led to the continued examination of the system in a 'live' environment. The potential for continued

engagement is the roll out of the Algo platform into more than 230 KFC stores across the Philippines. The progress towards the next phase indicates the continued deepening of the Company's grip in Asia, as well as evidence of strengthening relations with KFC globally.

The installation of the "Total Technology", a unique product of Dragontail's, was first implemented in stores in North America. Dragontail has launched its Total Technology solution which contains its flagship product, the "Algo", for streamlining restaurant and delivery operations, along with a POS (Point Of Sale) system and an online and mobile ordering sales platform directly inserted into the POS. The combination of technologies provided in the Total Technology solution has a matrix of services we believe is unmatched by any other service providers in the market today, and will increase Dragontail's revenue per store. To date, the company has signed agreements with US and Canada QSR chains under which the Total Technology solution, providing a full-service technology, is being launched. The Total Technology solution is built to allow automated order entry to the POS system from online and mobile ordering platforms, providing QSR businesses an instant labor cost reduction. The first few stores were installed during September 2018 representing 4 different brands. The remaining 52 stores of these customers are scheduled to be installed this year.

A strategic Collaboration with Weezmo Technologies Ltd. (Weezmo), will leverage Dragontail's two flagship products and will establish a mutual marketing platform. Weezmo, is a unique company in its field, that holds the exclusive proprietary software for issuance of digital invoices and the provision of remarketing and customer behavior analysis services to increase customer conversion. The strategic agreement will create a mutual marketing platform for both parties, to introduce their respective products and services to each other's existing customers as well as new customers. The collaboration will also enable Dragontail to leverage its two flagship products significantly – the Algo platform, an optimisation algorithm that streamlines, enhances and manages the entire restaurant order and delivery process; and its proprietary artificial intelligence [AI] QT camera systems sensor that instantly checks the quality of the food preparation. The most significant strength of the collaboration is the ability to reduce resources and time needed for the integration process with Dragontail's customers' infrastructure.

The Signing of a Referral agreement with Restaurant Revolution Technologies Inc (RRT), to accelerate US market potential penetration. RRT is engaged and promotes 2,000 restaurants throughout North America, focusing on growing the direct off-premise business and brand of its restaurant partners. RRT's flagship product "Order One" allows consumers to engage with the merchant locations online, by mobile and by voice. "Order One" compliments the Algo platform which is also designed to improve operational efficiency, reduce costs, increase revenue, enhance management control and bring a higher ratio of ROI.

Commenting on the company's quarterly achievements, Managing Director, **Ido Levanon** said: "Dragontail is now at an exciting inflection point. We can defiantly feel that many important conditions have matured. We have expanded our R&D team in Melbourne and Brisbane, continued our unique technology development, deepened our relationship with some of the world's leading fast food entities, and recently received a major vote of confidence from the Tiger Global Fund. I believe that the opportunities we have are fantastic and we will do everything to leverage them and bring them to a successful fulfillment".

For further information please contact:

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About Dragontail Systems

Dragontail is revolutionising the Quick Service Restaurant (QSR) and foodservice industry with its Algo System and computer-vision QT quality system that uses artificial intelligence (AI) machine learning.

The Algo System uses a sophisticated patented algorithm to optimise and manage the entire food preparation process from order to delivery. It is the first system in the world to fully automate and streamline the kitchen flow to deliver an immediate and significant return on investment to fast food and quick service restaurants.

The QT system's sensor and camera automatically monitor the preparation and cooking process in the kitchen to improve the quality and consistency of meals. Using proprietary advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient.

For more information, visit www.dragontailsystems.com.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Dragontail Systems Limited

ABN

614 800 136

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (9 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	356	638
1.2 Payments for		
(a) research and development	(727)	(1,763)
(b) product manufacturing and operating costs	(429)	(1,398)
(c) advertising and marketing	(52)	(342)
(d) leased assets	-	-
(e) staff costs	(177)	(456)
(f) administration and corporate costs	(185)	(775)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	2
1.5 Interest and other costs of finance paid	(1)	(8)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,215)	(4,102)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(8)	(222)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (9 months) \$USD'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other – cash acquired upon acquisition of subsidiaries.	-	-
2.6 Net cash from / (used in) investing activities	(8)	(222)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(96)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Loan refund from a service provider	3	15
3.10 Net cash from / (used in) financing activities	3	(81)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,788	6,446
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,215)	(4,102)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(8)	(222)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	3	(81)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (9 months) \$USD'000
4.5	Effect of movement in exchange rates on cash held	69	(404)
4.6	Cash and cash equivalents at end of quarter	1,637	1,637

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter USD \$'000	Previous quarter USD \$'000
5.1	Bank balances	1,555	2,706
5.2	Call deposits	82	82
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,637	2,788

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$USD'000**

43

-

1. Corporate advisory fees;
2. Office services;
3. Legal fees;
4. Director's fees; and
5. Reimbursements.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$'000**

-

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$'000	Amount drawn at quarter end \$'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$'000
9.1 Research and development	654
9.2 Product manufacturing and operating costs	510
9.3 Advertising and marketing	133
9.4 Leased assets	-
9.5 Staff costs	206
9.6 Administration and corporate costs	298
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,801

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



(Director)

Date: 15 October 2018

Print name: Ido Levanon

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.