

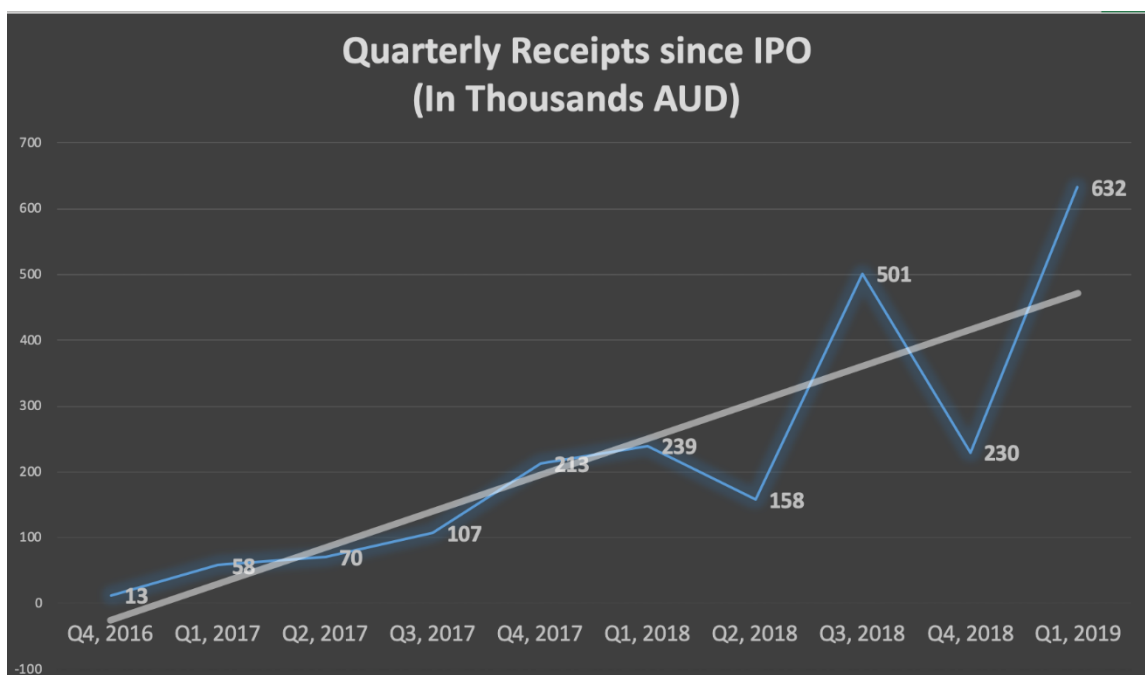
16 April 2019

ASX Announcement

DRAGONTAIL SYSTEMS QUARTERLY REVIEW - Q1 OF 2019

Key Q1 Highlights:

- Customer receipts during the first quarter of 2019 were equal to 275% of the previous quarter.
- Company expenses during the quarter were lower by over \$500K AUD (\$356K USD) compared to last quarter.
- Dragontail demonstrated a strong monthly installation rate of over 300 locations a month during February and March.
- Dragontail's install base continues its significant growth, recently passing 1,000 installations. This comprised of the Company's two flagship products, the ALGO Dispatching Platform and the Artificial Intelligence QT Camera.
- The roll out of Dragontail's Algo platform across Pizza Hut stores in Australia has begun after short and effective integration process and is expected to be completed by the end of the year.
- The US Patent for the QT Camera was published April 9th. The patent content is broad and comprehensive, protecting the QT Camera's unique technology and work method and encompasses 18 different claims.
- Dragontail continue to expend their AI team and technology that is currently managed by two leading Doctors in the AI field, based in Brisbane.



18 April 2019 (Melbourne): Dragontail Systems Limited (ASX: DTS, the “**Company**” or “**Dragontail**”) is pleased to provide the market with its periodic review covering the three months ended 31 March 2019 (Q1 2019). The Company has been very pleased with the increased global installation rate during February and March. The increase in installation rate places the Company on track to reach its install targets.

The Company now has a strong inventory of stores with its products installed across leading global QSR brands. This provides a solid base from which to continue the Company's growth while continuing to explore new opportunities in our pipeline.

Q1 2019 cash flow report

The Appendix 4C quarterly report for the three months ended 31 March 2019 is attached.

Cash usage for the quarter reflected the investment Dragontail is making in further strengthening its team, developing additional related technology and expanding its relationships with leading global QSR companies.

Compared to the previous quarter, receipts were higher by over \$400K AUD, and expenses at the same time were lower by over \$500K AUD.

Dragontail expects to receive a research and development grant of over \$500k AUD in relation to the 2018 financial year.

Dragontail presented an impressive installation expansion during Q1 of 2019. The Company reached a rate of over 300 locations in one month, and also a new record of up to 32 installations a day. The installations consist of the Company's two flagship products, the ALGO Dispatching Platform and the Artificial Intelligence QT Camera.

Since the end of March, the number of installations now exceeds 1,000 stores, keeping the Company in line with its' Q2 target.

The roll out of Dragontail's Algo platform across Pizza Hut stores in Australia has begun and is expected to be completed by the end of the year. The roll out took place after a short and effective integration process, and is scheduled to include more than 280 Pizza Hut stores across the country during 2019.

The Pizza Hut Australia rollout represents another customer installing the Algo system on a nationwide basis, following on from nationwide deployment in Singapore and Canada.

Dragontail is the owner of the patent for its AI quality control camera in the USA. After working closely with the USPTO, Dragontail was granted the patent rights for its QT Quality Control Camera in the USA on April 9, 2019 (patent No. 10,254,264). The QT Camera relies on a unique work method that uses artificial intelligence and channels the information collected by it to monitor the food items its scans. The QT Camera provides an indication of the food quality and its suitability to the standards set by the store and the end-customers' requirements, in real time and acts as an efficient management tool.

The benefits of using the QT Camera are immediate and expressed in increasing customer satisfaction, ensuring food was prepared according to the standards set by the store and cost savings as only properly made food will be delivered to the end-customer. In addition, by providing a snapshot displayed on the computer screen in the store within seconds, the management has a significant tool to control and monitor the food quality in real time.

The patent granted is another validation that Dragontail is leading the way with its unique and innovative AI technology.

Commenting on the Company's quarterly results and forward outlook, Managing Director, **Ido Levanon** said: "This first quarter's achievements are an outstanding turning point demonstrating Dragontail's capabilities and strength in terms of product validation, execution performances and the significant benefit customer's receive from our products. At this stage the numbers speak for themselves".

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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 patented 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")

31 March 2019

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (3 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	449	449
1.2 Payments for		
(a) research and development	(834)	(834)
(b) product manufacturing and operating costs	(387)	(387)
(c) advertising and marketing	(69)	(69)
(d) leased assets	-	-
(e) staff costs	(225)	(225)
(f) administration and corporate costs	(261)	(261)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	(3)	(3)
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	(1,327)	(1,327)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(35)	(35)
(b) businesses (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (3 months) \$USD'000
(c) investments	-	-
(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	(35)	(35)

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	-	-
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	3
3.10 Net cash from / (used in) financing activities	3	3

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	3,730	3,730
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,327)	(1,327)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(35)	(35)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3	3
4.5	Effect of movement in exchange rates on cash held	66	66
4.6	Cash and cash equivalents at end of quarter	2,437	2,437

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 \$'000	Previous quarter \$'000
5.1	Bank balances	2,338	3,650
5.2	Call deposits	99	80
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)	2,437	3,730

6. Payments to directors of the entity and their associates

	Current quarter \$USD'000
6.1	60
6.2	-
6.3	

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2
- | |
|---|
| <ol style="list-style-type: none"> 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	Current quarter \$'000
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	

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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	584
9.2 Product manufacturing and operating costs	591
9.3 Advertising and marketing	84
9.4 Leased assets	-
9.5 Staff costs	216
9.6 Administration and corporate costs	372
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,847

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:  Date: 16th April 2019
(Director)

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.