

31 January 2020

DRAGONTAIL SYSTEMS – Q4FY19 QUARTERLY UPDATE

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 31 December 2019 (Q4 2019). The Appendix 4C quarterly report for the three months ended 31 December 2019 is attached.

Q4 Highlights:

- **Total cash receipts for the 2019 financial year of A\$1.68m (US\$1.18m), represents growth of 47% over 2018. Operating expenses reduced 11% compared to 2018, demonstrating the Company’s ability to efficiently scale its installed base without an accompanying increase in expenses.**
- **Q4FY19 cash receipts of A\$306k, up 31% vs. Q4FY18, was below sales revenue due to the timing of cash receipts.**
- **In 2019, the installed base of the Algo and QT Camera grew approximately 10-fold compared to December 2018, reaching more than 2,000 stores globally.**
- **Significant progress made on integrations with the world's leading food-delivery aggregators. Subsequent to quarter-end, the first USA store went live with the Algo and drivers from DoorDash.**
- **Nationwide rollout of the QT Camera was completed in more than 800 Domino's Pizza stores across Australia and New Zealand.**
- **Nationwide rollout of the Algo platform continued into all Pizza Hut stores in Australia and across the UK.**
- **December 2019 signified a major milestone of processing over 6.5 million orders and over 11.5 million individual food items by Dragontail’s proprietary AI technology.**
- **Subsequent to quarter-end, a non-binding term sheet was signed to raise A\$20m, cornerstoned by a strategically important USA-based investor, Eldridge Industries. The funding will repay outstanding debt and support the planned major expansion into the USA and other markets.**
- **Subsequent to quarter-end, the Company drew down on the US\$2m bridge loan provided by Eldridge Industries. These funds will provide the Company with sufficient liquidity until the closing of the A\$20m funding, expected in March 2020.**

Financial Update

Total cash receipts in 2019 are up 47% y/y to A\$1.68m (US\$1.18m). Operating expenses reduced 11% compared to 2018, demonstrating the Company’s ability to efficiently scale its installed base without an accompanying increase in expenses.

Q4FY19 cash receipts of A\$306k represents growth of 31% over Q4FY18 (A\$233K). Q4FY19 receipts were lower than Q4 sales revenue due to the timing of year-end customer payments.

Q4FY19 cash outflow was 10% lower than forecast.

Subsequent to quarter-end, Dragontail entered into a non-binding term sheet to raise A\$20m by way of issue of convertible preference shares, cornerstoned by a strategically important USA-based investor, Eldridge Industries. The funding will support the planned major expansion into the USA, including sales and marketing investment, as well as supporting the ongoing growth in other markets. It will also enable the Company to repay its existing A\$4.3m corporate loan with Alceon.

Subsequent to quarter-end, the company drew down on the US\$2m bridge loan provided by Eldridge Industries. These funds will provide the Company with sufficient liquidity until the closing of the preference share issue, expected in March 2020

Operational Update

In 2019, the installed base increased approximately 10-fold compared to December 2018, reaching more than 2,000 stores globally.

The Company continued to develop its existing QSR-focused product set, while opening up exciting new markets and business opportunities, and in the process completed a worldwide deployment of its two flagship products – the Algo Platform and the QT quality control camera - in over 2,000 locations.

Significant progress made on integrations with the world's leading food-delivery aggregators during the quarter – DoorDash Inc, Postmates Inc., Kin Shun Information Technologies PTE Limited and Drive Yello Pty Ltd.

These engagements with the world's leading food-delivery aggregators cover North America and Asia-Pacific. Systems integrations are already taking place and the first USA store combining the Algo system with DoorDash drivers has gone live. This world-first full integration between a delivery aggregator platform and a store's kitchen operation and delivery system was launched following an intensive period of integration work between DoorDash and Dragontail.

These alliances are strategic due to Dragontail's unique ability to offer its QSR customers who use the Algo the ability to combine their own driver fleets with drivers operated by aggregators to fulfill deliveries. The Algo's AI algorithm automatically compares and recommends, on the basis of pre-determined business considerations, which is the most accurate and effective alternative. In this way the Algo optimizes customer satisfaction while minimizing labor cost and the total costs of delivery to the restaurant.

Dragontail expects this first-of-a-kind functionality to significantly increase customer demand for the Algo and improve revenue per store over time.

During 2019, Dragontail was granted a patent for its QT Quality Control Camera in the USA.

Dragontail was granted the patent for its QT Camera in the USA (patent No. 10,254,264), encompassing 18 different claims and thereby containing broad and comprehensive protection of the QT Camera's unique technology and work method. The QT Camera uses Artificial Intelligence (AI) to provide a real-time indication of food quality and consistency with standards set by the store and the end-customers' requirements.

Nationwide rollout of the QT Camera completed in more than 800 Domino's Pizza stores across Australia and New Zealand.

The QT Camera was installed at Domino's Pizza stores as the "DOM Pizza Checker", which is set to significantly improve product quality and consistency throughout all Domino's stores in Australia and New Zealand.

A nationwide rollout of the Algo platform commenced into all Pizza Hut stores across the UK.

Pizza Hut UK operates 400 stores and installations are progressing well, with the rollout expected to be complete by the end of Q2, 2020. The deployment of the Algo in the UK follows complete nationwide installations in Canada, Singapore and ongoing installations in Pizza Hut Australia.

The Company ended the year with a significant increase in orders processed using its proprietary AI technology. Dragontail's AI processed over 6.5m orders in December, up 10 fold from December 2018.

The number of food items processed through the AI technology as a result of the orders was more than 11.5 million compared to about 850k in December 2018, a more than 13-fold increase. This significant big-data information base, which is growing rapidly, positions Dragontail as the clear leader in AI-based technology targeted to the QSR industry.

Restaurants that are utilizing Dragontail's technology experienced greater order accuracy, faster delivery times, and improvements in both customer satisfaction scores and food quality parameters, providing strong validation of the technology.

The roll out of Dragontail's Algo platform across all Pizza Hut stores in Australia is in progress, following very positive results from the first Pizza Hut stores using the DT Algo Platform.

The rollout into more than 250 Pizza Hut Australia stores is expected to be completed by Q2 2020. Pizza Hut Australia is also working in conjunction with Dragontail on additional state of the art new restaurant technologies and expect to be first to the market with some of the technology during 2020.

- END -

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 Platform and computer-vision QT quality system that uses artificial intelligence (AI) machine learning.

The Algo Platform 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.dragontail.com.

This ASX Announcement was approved and authorised by Dragontail's Board of Directors.

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 December 2019

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (12 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	214	1,180
1.2 Payments for		
(a) research and development	(597)	(2,566)
(b) product manufacturing and operating costs	(444)	(1,972)
(c) advertising and marketing	(66)	(263)
(d) leased assets	-	-
(e) staff costs	(230)	(911)
(f) administration and corporate costs	(242)	(956)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	7
1.5 Interest and other costs of finance paid	(2)	(11)
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	(1,366)	(5,492)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2)	(50)
(b) businesses (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (12 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	(2)	(50)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	3,022
3.3 Proceeds from exercise of share options	-	5
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Interest loan payments	(91)	(91)
3.6 Proceeds from borrowings	-	-
3.7 Repayment of borrowings	-	-
3.8 Transaction costs related to loans and borrowings	-	-
3.9 Dividends paid	-	-
3.10 Loan to an employee	-	(57)
3.11 Loan refund from a service provider	4	15
3.12 Net cash from / (used in) financing activities	(87)	2,894

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	2,433	3,730
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,366)	(5,492)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 months) \$USD'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2)	(50)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(87)	2,894
4.5	Effect of movement in exchange rates on cash held	(13)	(117)
4.6	Cash and cash equivalents at end of quarter	965	965

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	850	2,318
5.2	Call deposits	115	115
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)	965	2,433

6. Payments to directors of the entity and their associates

- | | Current quarter
\$USD'000 | |
|-----|--|----|
| 6.1 | Aggregate amount of payments to these parties included in item 1.2 | 86 |
| 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

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	3,000	3,000
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.

During the previous quarter, a loan of AUD 4.3M (USD 3M) was received from Alceon Group. The loan bears an annual interest rate of 15% per annum, for month 1-8, for month 9-24: 17.5% per annum.
The first interest instalment of AUD 115K (USD 91K) was paid during Q4.

9. Estimated cash outflows for next quarter	\$'000
9.1 Research and development	534
9.2 Product manufacturing and operating costs	434
9.3 Advertising and marketing	72
9.4 Leased assets	-
9.5 Staff costs	202
9.6 Administration and corporate costs	336
9.7 Other (provide details if material) second interest payment	113
9.8 Total estimated cash outflows	1,691

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: 31st January 2020

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.