

24 July 2020

DRAGONTAIL SYSTEMS – Q2FY20 QUARTERLY ACTIVITIES REPORT

Dragontail Systems Limited (ASX: DTS, the “**Company**” or “**Dragontail**”) is pleased to provide the market with its Quarterly Activities Report for the three months ended 30 June 2020 (Q2 2020). The Appendix 4C Quarterly Cash Flow Report for the three months ended 30 June 2020 is attached.

Q2 Highlights:

- **Q2 Sales proceeds were up over 50% compared to previous quarter, comprised of monthly reoccurring revenue.**
- **Q2 Net cash used for operation was the lowest since 2016 IPO, only US\$363K.**
- **Successful completion of the first phase of strategic funding by US institutional investors, creating a strong debt-free Balance Sheet with no outstanding loans and a \$4M (\$6M AUD) Cash Balance.**
- **Dragontail and Domino's Australia continue their successful partnership, which has seen the development of world-first technology, followed by additional AI-based enhancements, to enable the compliance of the stores with the chain's high sanitary standards during the COVID-19 pandemic.**
- **Successful completion of the Algo Platform rollout in Pizza Hut stores across Australia.**
- **While Dragontail’s contracted stores for the Algo platform and the computer-vision QT quality system, stays at 5,400 stores globally the install based during the pandemic still grew to 2,317 stores up from 2,200 last quarter.**
- **Dragontail Appointed Mr. Henry Shiner, a leading industry figure, to the Board of Directors.**

Fundraising

Successful completion of the first phase of strategic funding by institutional investors, positioning the Company debt-free with no outstanding loans.

Dragontail has finalized the first stage of two funding tranches from strategic investors. The funding is led by Eldridge Industries (“**Eldridge**”), and Goudy Park Capital LP (“**Goudy**”), with the support of the Company’s largest Australia-based shareholder, Alceon Liquid Strategies Pty Ltd (“**Alceon**”).

Following the receipt of the first tranche of A\$12M, all liabilities were paid thus positioning the Company as debt free.

The funds were received subsequent to shareholder approval being obtained at the Extraordinary General Meeting on 28 May 2020. The full two-stage strategic funding totals A\$19.25m via the issue of convertible preference shares (as detailed in the Company’s Announcement dated 23 March 2020).

Having the additional new investors together with the investment made by the leading American fund, Tiger Global, will assist accelerating penetration into the American market and crystallise the Company’s potential.

Following the receipt of the first tranche of strategic funding, the Company has reset its debts and has sufficient working capital to scale its sales and marketing to enable it to accomplish its working plans. As COVID-19 restrictions permit, the Company plans to expand its activities and leverage the opportunities in its pipeline, predominantly in the US, while also looking to accelerate growth in the Latin America, Europe and Asia-Pacific markets.

Financial Update

Q2 Sales proceeds were up over 50% compared to the previous quarter and comprised primarily monthly reoccurring revenue.

Q2 Net cash used in operations of US \$363K was the lowest since the company's IPO in Dec 2016. Even taking into account the R&D refund, which brings the net cash used in operations to US \$825K, it is still the lowest since 2017.

The financial results as of the end of the quarter provide the Company with a cash balance of US \$4M (\$6M AUD), after a successful first phase of financing.

The Company is completely debt-free, with no outstanding loans.

During the quarter the Company paid US\$46K to related parties, comprising director fees, bookkeeping, and company secretarial services.

Dragontail and Domino's Australia continue their successful partnership, which has seen the development of world-first technology, followed by additional AI-based enhancements, to enable the compliance of the stores with the chain's high sanitary standards during the COVID-19 pandemic.

Both companies have been working together for more than three years to develop and enhance the DOM Pizza Checker (computer-vision QT quality system), which officially launched in May 2019.

This system is comprised of a smart scanner that sits above the cut bench and uses advanced machine learning, artificial intelligence, and sensor technology to check the quality of every single pizza before it goes out the door.

Since launch, DOM Pizza Checker has scanned more than 50 million pizzas – providing stores with an invaluable training tool and customers with more visibility over their meal.

Dragontail continue to work on enhancements to the DOM Pizza Checker, that are AI-based software solutions to enable Domino's to meet its high sanitary standards during the COVID-19 pandemic.

Successful completion of the Algo Platform rollout in Pizza Hut stores across Australia.

The Company has successfully completed the installation of the Algo Platform in over 250 Pizza Hut stores in Australia, Following the immediate impact of the technology Pizza Hut Australia has extended its contract with Dragontail for a further two years (to three years) following significant improvements in store performance and customer satisfaction and reports a successful completion of the rollout of the Algo Platform in its stores.

This represents another successful completion of a project carried out by Dragontail to the full satisfaction of its customer and within the time allotted for it - by the end of Q2.

Pizza Hut Australia has already expressed its desire to collaborate with Dragontail on further technology projects that are expected to significantly improve customer experience, including a comprehensive delivery solution that will potentially utilize both the Algo, as well as the Doordash delivery service.

Dragontail's largest Pizza Hut franchisee in Canada converts their Algo Lite stores to full Algo.

Dragontail's largest Pizza Hut franchisee customer in Canada – FMI – converts their Algo Lite stores to the full Algo Platform, adding 70 additional stores utilizing this unique technology. FMI is one of the largest restaurant franchisees in North America, operating more than 360 Pizza Hut, KFC, Taco Bell, Panera Bread and other leading QSR brands across 18 different provinces and states.

Pizza Hut Canada was the first market to mandate Dragontail's technology in Sep 2018 with franchises able to choose from the Algo Lite system or the full featured Algo Platform.

The conversion to the full Algo Platform results in a monthly fee higher by 3 times than of the Algo Lite. This demonstrates the validity of Dragontail's customer acquisition strategy of "land and expand", while even when it secures a new customer by offering the stripped down version to compete with the basic

last mile solutions, the customers realize over time that Dragontail's full Algo (which includes the kitchen optimization) is the technology that makes the real difference in their operation.

Dragontail has signed an agreement with AM Group, the biggest KFC franchisee in Germany, to implement the Algo platform in its stores across Germany.

AM Group, the largest licensee of Yum! Brands in Germany for Pizza Hut and KFC, has decided to implement Dragontail's Algo and drivers sharing platform in its stores across Germany, for streamlining restaurant and delivery operations.

The integration of the Algo Platform is already underway, with the intention to install the Algo platform into 24 KFC stores and 16 Pizza Hut stores across Germany during 2020.

This agreement joins a series of other agreements with YUM! around the world, indicating the strong relationship the Company has with YUM! Brands globally

Dragontail's contracted stores for the Algo platform and the computer-vision QT quality system, consolidated is 5,400 stores globally, (as the previous quarter).

Due to the slowdown in global markets as a result of the COVID-19 pandemic, the installation rate was lower than usual. However, customer's desire to continue their rollout and expending Dragontail's technologies to all their stores is stronger than ever. The Company's installed base of the consolidated Algo platform and the QT Camera, is 2,317 globally (compared to 2,200 stores last quarter).

Dragontail Appointed Mr. Henry Shiner, a leading Industry Figure, to the Board of Directors.

Dragontail appointed Mr. Shiner as a Non-Executive Director to the Board of Directors, bringing aboard his vast experience accumulated over many years of senior management and strategic positions he held including in the Quick Service Restaurant industry (the positions at McDonalds of Vice President, Chief Information Officer (CIO) Australasia and then Vice President Global Financial Transformation IT).

Mr. Shiner brings strong leadership skills across a wide range of businesses, with an extraordinarily strong track record in several well established successful International and Australian-based companies.

Mr. Stephen Hewitt-Dutton, retired from his position as a Non-Executive Director after two years in the role and remains as the Company's Secretary.

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

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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 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.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Dragontail Systems Limited

ABN

614 800 136

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	310	510
1.2 Payments for		
(a) research and development	(404)	(884)
(b) product manufacturing and operating costs	(447)	(919)
(c) advertising and marketing	(43)	(129)
(d) leased assets	-	-
(e) staff costs	(161)	(377)
(f) administration and corporate costs	(79)	(230)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(3)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	462	462
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(363)	(1,570)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(5)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(5)	(5)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	8,271	8,271
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(123)	(123)
3.5 Proceeds from borrowings	-	2,000
3.6 Repayment of borrowings	(4,965)	(4,965)
3.7 Transaction costs related to loans and borrowings	(195)	(308)
3.8 Dividends paid	-	-
3.9 Other (Loan refund from an employee)	-	6
3.10 Net cash from / (used in) financing activities	2,988	4,881

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,605	965
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(363)	(1,570)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(5)	(5)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,988	4,881
4.5	Effect of movement in exchange rates on cash held	(109)	(155)
4.6	Cash and cash equivalents at end of period	4,116	4,116

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	4,001	1,490
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)	4,116	1,605

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	46
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(363)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,116
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,116
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	11.33
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: #N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: #N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: #N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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.

Date: July 24, 2020

Authorised by: Ido Levanon
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.