# Delta Drone International Limited

**ABN 17 618 678 701**

**ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

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## CORPORATE DIRECTORY

**Directors**

| | |
|---|---|
| B. Gen (ret.) Eden Attias | Executive Chairman |
| Mr Christopher Clark | Chief Executive Officer |
| Mr Dan Arazi | Non-Executive Director |
| Mr Stephen Gorenstein | Non-Executive Director |
| Mr Chris Singleton | Non-Executive Director |

**Company Secretary**

Mr Stephen Buckley

**Registered Office (Australia)**

Level 27, 101 Collins Street
Melbourne VIC 3000
Email: contact@dlti.com.au
Web: www.dlti.com.au

**Auditors**

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

**Legal Advisers (Australia)**

Arnold Bloch Leibler
Level 21
333 Collins Street
Melbourne VIC 3000

**Legal Advisers (Israel)**

Shibolet
Museum Tower
4 Berkowitz Street
Tel Aviv Israel 6423806

**Legal Advisers (South Africa)**

Rodl & Partner
1 Eastgate Lane
Bedfordview
South Africa 2007

**Share Registry**

Automic Registry Services
Level 2, 267 St Georges Terrace
Perth WA 6000
Tel: 1300 288 664 (Within Australia) | +61 2 9698 5414 (Outside Australia)
Fax: +61 8 9321 2337
Email: hello@automic.com.au
Web: www.automic.com.au

**Securities Exchange Listing**

ASX Limited
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6005

**ASX Code**

DLT (*formerly PRZ*)

## CHAIRMAN'S LETTER

Dear Shareholders

On behalf of the Board of Directors, I am honoured to present the FY20 Annual Report for Delta Drone International (ASX: DLT).

This year was transformational. The COVID-19 pandemic continues to test economies, businesses, and communities globally and alters the way the world operates. It is forcing companies to re-evaluate how they do things, and is fast-tracking the acceptance of the efficiencies that commercial drone use provides - which positions Delta Drone International for growth.

While the world transforms towards a new way of working, transformation is also a key theme across all touchpoints of our business. Despite the pandemic, we seized the opportunity to combine two world-leading, yet complementary, drone industry companies to provide fully outsourced drone services to large and fast-growing target markets.

After strong support for the capital raise from domestic and international investors, Delta Drone International recommenced trading on the ASX on 31 December 2020 after raising $5 million.

Our newly formed entity is using the funds raised to develop a truly international drone services company by expanding our operations into Australia to service the vast enterprise mining and agriculture sectors, along with growing our operations throughout Africa. We will continue to focus on our research and development capabilities through our state-of-the-art R&D and integration centre and our dedicated team of R&D experts.

With full support from the Board of Directors, former CEO of Delta Drone South Africa, Christopher Clark is leading Delta Drone International through its growth trajectory as Chief Executive Officer.

Chris has an extensive track record of strategically driving innovation and profit in the technology sector with a wealth of knowledge of the global drone industry. He and his family have now relocated to Australia to support the organisation's Australian operations and place Delta Drone International on an accelerated revenue path in the region.

This year, we experienced a growing adoption of drone technology and an appetite for Delta Drone International's fully outsourced services. With our renewed focus on Australia, we are well placed to continue to execute our growth strategy.

On behalf of the Board, thank you for your support throughout 2020. As the world embarks on a new journey towards urban drone operations, I look forward to updating you on the role Delta Drone International plays in revolutionising the way mining and agriculture companies conduct complex aerial data capture and embrace drone technology across other aspects of their sector, and in turn deliver strong results for our shareholders.

Eden Attias
**Executive Chairman**

**CEO'S LETTER**

To our Stakeholders,

As we continue to navigate the global challenges of 2021, it is my pleasure to share with you Delta Drone International's achievements and key milestones for 2020.

Delta Drone International remains one of the largest 'drones-as-a-service' operators in Africa; servicing the world's leading enterprise mining and agriculture companies.

This year we strengthened our market position by expanding into new territories and new verticals of the business; solidifying our now truly global operations.

The strategic merger of two industry-leading drone companies - Delta Drone South Africa and ParaZero – has us well placed to enter the Australian market and bring our unique suite of problem-solving solutions to even more international customers.

This, with the continued support of our management team of drone and business professionals; drawn from industries across the globe and experts in their own right.

Despite COVID-19, Delta Drone International generated $3.4 million in revenue, driven by consistent annuity income from large-scale mining customers. We have a strengthened balance sheet from the capital raise as part of the Company's re-listing, with $5.2 million of cash in the bank, which enables us to execute our growth plans and capitalise on the adoption of drones in commercial settings.

At an operational level we celebrated multiple achievements throughout the year, including new customer contract wins, OEM integrations and the continuous development of next- generation technologies.

Our ParaZero patented autonomous parachute technology, SafeAir, remains the industry leader in flight safety systems; meeting all key metrics used by civil aviation authorities to determine if a drone can fly safely over people. By installing Delta Drone International's SafeAir system, 117 waivers were granted by civil aviation authorities around the world for businesses to legally fly drones over people, including the New York Times. We take great pride in this milestone as this is the largest number of waivers obtained by any business globally and is a testament to our research and development team's dedication to safety and compliance.

In December 2020, The U.S Department of Transportation -— Federal Aviation Administration (FAA) announced stricter protocols for obtaining 'Operations Over People Waivers' with Delta Drone International one of few companies still with compliant safety systems. This leaves us well placed to take advantage of the demand for systems that meet these new, and stricter, safety standards.

Post the financial year end, we are seeing significant demand for our services and expertise including:

- Becoming the first organisation to provide specialised Remote Pilot License (RPL) drone courses in Africa in conjunction with the University of Pretoria;
- Expanding our operations into Zambia to deliver a specialised agricultural project for leading multinational agriculture services company, Syngenta;
- Signing a significant OEM integration deal with Fortune 500 company, Doosan, and;
- Expanding our services remit by providing aerial security services for a large mining customer in Africa.

Looking ahead, I am excited to embark on my new journey in Australia to provide our unique 'drones-as-a-service' model to enterprise mining and agriculture businesses, as well as connecting with like-minded drone companies. We are already in extensive discussions with several businesses – a positive sign for fast growth in the new region.

I would like to thank all our valued stakeholders for their support in 2020 including:

- Delta Drone Group (France) for its support and vision in making our merger possible - as we build out a global drone business;
- Our staff and contractors – it is an honour to work with such loyal and tenacious colleagues, who together believe in the long-term vision of this business and the exciting opportunities ahead.

And lastly, I would like to thank you, our shareholders, for joining our organisation through its next stage of growth. I am confident our strong business offering combined with a wider social acceptance of drone technology will ensure our company stays relevant and profitable into the future and delivers strong results for years to come.

Christopher Clark
***Chief Executive Officer***

## DIRECTORS' REPORT

Your Directors present their report, together with the financial statements of Delta Drone International Limited ("the Company" or "Delta Drone") (ASX: DLT) and its controlled entities ("the Group") for the financial year ended 31 December 2020.

**Directors**

The names and the particulars of the Directors of the Company during or since the end of the financial year are:

| Name | Title | Appointed |
|---|---|---|
| B. Gen (ret.) Eden Attias | Executive Chairman | 13 June 2018 |
| Mr Christopher Clark | Chief Executive Officer | 3 December 2020 |
| Mr Dan Arazi | Non-Executive Director | 13 June 2018 |
| Mr Stephen Gorenstein | Non-Executive Director | 17 October 2018 |
| Mr Chris Singleton | Non-Executive Director | 1 January 2019 |

**Principal Activities**

Delta Drone is a multi-national drone-based data service and technology solutions provider for the mining, agricultural and engineering industries. It provides aerial surveying and mapping, security and surveillance and blast monitoring and fragment analysis through a fully-outsourced service with AI and fast data turnaround that allows enterprise customers to focus on operations on the ground while the Delta Drone takes care of everything in the air, including compliance and maintenance.

Delta Drone has in-house enabling proprietary technology, an R&D and integration centre and specialist expertise in designing, developing and providing best-in-class autonomous safety systems for commercial drones used for drone deliveries, drone flights for crowd monitoring in urban areas as well as 'beyond visual line of sight' (BVLOS) missions.

While the COVID-19 pandemic did have an impact on the business, the overall business remained resilient due to long-term annuity contracts with mining customers, considered essential to national economies.

**Dividends**

There were no dividends paid or recommended during the financial year ended 31 December 2020 (2019: nil).

**Operating and financial review**

Unless otherwise stated, all figures in this report are in the Company's presentation currency, the Australian Dollar ("$").

During the year ended 31 December 2020, Delta Drone International Limited incurred a loss of $115,391 (2019: profit of $157,429). The Company had net assets of $11,466,885 (2019: net liabilities of $616,161) and cash and cash equivalents of $5,182,923 (2019: $784,604). The 2019 comparative figures represent results of Delta Drone South Africa (Pty) Ltd and its wholly owned subsidiaries.

**Significant changes in the state of affairs**

***Acquisition of Delta Drone South Africa (Pty) Ltd***

On 3 December 2020, shareholders of Delta Drone International Limited (*formerly ParaZero Limited*) approved the acquisition of Delta Drone South Africa (Pty) Ltd ("DDSA") from Delta Drone SA (a public company incorporated in France) pursuant to which the Company acquired 100% of the issued capital in DDSA ("Transaction"). The Transaction, which became effective on 22 December 2020 has been accounted for as a reverse acquisition under the accounting standards. DDSA is identified as the accounting acquirer (legal acquiree) and Delta Drone International Limited is the accounting acquiree (legal acquirer). As such, the consolidated financial statements will be issued under the name of DLT but described in the notes as a continuation of the financial statements of DDSA.

The terms of the Transaction were as follows:

- The issue of 203,512,750 shares to Delta Drone SA to acquire 100% of the issued capital of DDSA.
- The issue of 45,000,000 Performance Shares to Delta Drone SA which will convert to new shares according to the following milestones:
  - Class A: 20,000,000 Class A Performance Shares with each Class A Performance Share entitling Delta Drone SA to subscribe for one fully paid ordinary share in the capital of the Company if DDSA achieves consolidated revenue (for the avoidance of doubt, only DDSA and excluding the Company) for any full financial year (being 1 January to 31 December) during the three-year term of the Class A Performance Share of not less than US$3.2 million ("First Performance Milestone");
  - Class B: 15,000,000 Class B Performance Shares with each Class B Performance Share entitling Delta Drone SA to subscribe for one fully paid ordinary share in the capital of the Company if DDSA enters into at least two binding contracts with Australian based mining companies (being companies that conduct mining, exploration or extraction services) for the provision of drone survey or mapping solutions services to those mining companies in Australia ("Services") and DDSA receives not less than US$1,000,000 (based on audited accounts) of verified revenue in aggregate from such executed contracts received within the three-year term of the Performance Shares for its Services ("Second Performance Milestone"); and
  - Class C: 10,000,000 Class C Performance Shares with each Class C Performance Share entitling Delta Drone SA to subscribe for one fully paid ordinary share in the capital of the Company if during the three year term of the Class C Performance Shares, the Company announces to the ASX that DDSA has expanded the services of its business offering (being the provision of drone survey and mapping solutions) into a new geographic location outside of Australia, Israel, South Africa, Ghana and Namibia and achieved a revenue in that new geographic location of not less than US$1,000,000 ("Third Performance Milestone").

If a Performance Milestone is not satisfied within three years of the date of issue of the Performance Shares, then the relevant Performance Shares will automatically lapse.

- Broker Shares: 6,000,000 fully paid ordinary shares to Cukierman & Co Investment House Ltd for having introduced the Company and DDSA to one another ("Broker Shares"). The deemed issue price per share is A$0.04 with an implied value of A$240,000.

Further information on the Transaction is detailed in Notes 2 and 4 of the financial statements.

***Capital raising***

The Company raised $5,000,000 (before transaction costs) pursuant to a Prospectus via an offer of 125,000,000 fully paid ordinary shares at an issue price of $0.04 per share.

***Board changes***

Following the acquisition of DDSA, Mr Christopher Clark was appointed as Chief Executive Officer and Mr Eden Attias reverted to Executive Chairman. Messrs Dan Arazi, Stephen Gorenstein and Chris Singleton continued their role as Non-Executive Directors.

***New ASX Ticker Code***

The Company changed its ASX Ticker Code to DLT (formerly PRZ).

**Information on Directors**

| | |
|---|---|
| ***B. Gen (ret.) Eden Attias*** | Executive Chairman |
| Qualifications | Bachelor of Arts in Computer Science, Master of Arts in Public Administration |
| Experience | Brigadier General (ret.) Attias was nominated as Israel's first Ministry of Defense attaché to Ottawa, Canada. He has a distinguished military resume, having served in Israeli's Air Force as a pilot and as a leader in numerous positions for over 30 years, achieving the rank of Brigadier General. |
| Interest in Shares and Options at the date of this report | 559,717 Ordinary Shares,<br>37,106 unlisted options expiring 24 June 2024 exercisable at \$0.1125<br>5,598,837 Options expiring 13 June 2023 exercisable at \$0.0027 |
| Directorships held in other listed entities (last 3 years) | None |

| | |
|---|---|
| **Mr Christopher Clark** | Chief Executive Officer – appointed 3 December 2020 |
| Qualifications | Bachelor of Accounting, Master of Business Administration |
| Experience | Mr Clark has been involved in the mining services sector for over 10 years in South Africa, beginning with technology and communication projects for mining giant Anglo American. Mr Clark has spearheaded the development of the DDSA business across Africa, including Ghana and Namibia, and has set up new business verticals in agriculture and executive training. |
| Interest in Shares and Options at the date of this report | Nil |
| Directorships held in other listed entities (last 3 years) | None |

| | |
|---|---|
| ***Mr Dan Arazi*** | Non-Executive Director |
| Qualifications | Bachelor of Economics and History |
| Experience | Mr Arazi is a serial entrepreneur and has been involved in a number of start-ups in Israel, most particularly in the telecom and internet space. He was a leading film producer in Israel and has been a member of the Board of Israeli Film Council. He is currently the Chairman of the Israel AeroClub Gliding Association and the President of the Keiretsu Forum, the Israeli Chapter of the 100+ Angels Club. Mr Arazi is also a co-founder and executive at Orckit Communications (NASDAQ: ORCT). |
| Interest in Shares and Options at the date of this report | 359,800 Ordinary shares<br>25,956 unlisted options expiring 24 June 2024 exercisable at \$0.1125 |
| Directorships held in other listed entities (last 3 years) | None |

| | |
|---|---|
| ***Mr Stephen Gorenstein*** | Non-Executive Director |
| Qualifications | BSc (Hons) Geology and Geophysics, Masters in Accounting and Finance |
| Experience | Mr Gorenstein has over 17 years' experience in the capital markets including analyst roles at both Goldman Sachs and Merrill Lynch. He was formerly the Regional Head of Asia Pacific Metals and Mining at Bank of America Merrill Lynch. Mr Gorenstein has extensive networks in the Australian capital markets and is active in cross border transactions particularly sourcing high-quality technology companies from Israel looking to establish themselves in Australia. Mr Gorenstein is a director of Jindalee Partners. |
| Interest in Shares and Options | 400,000 Ordinary Shares<br>37,106 unlisted options expiring 24 June 2024 exercisable at $0.1125 |
| Directorships held in other listed entities (last 3 years) | White Rock Minerals Limited (ceased 1 February 2021)<br>Sky N Space Co Ltd |

| | |
|---|---|
| ***Mr Chris Singleton*** | Non-Executive Director |
| Qualifications | B.Ed. Industrial Arts |
| Experience | Mr Singleton has extensive international experience in Oil & Gas, Manufacturing, Technology, Telecommunications and Service Industries. He is currently the Managing Director of Minaret Capital, a provider of corporate advisory and growth strategies to Australian businesses. Mr Singleton has held numerous directorship roles with public and private companies and has successfully founded and sold business including: Votel, a service provider acquired by Vodafone, B Digital, that was funded by Australian Capital Equity and eventually acquired by Soul Pattinson; Managing Director of Impress Energy, acquired by Beach Petroleum and recruitment solutions, Total Staffing Solutions and UltimateSkills, that were both acquired by Humanis Group. |
| Interest in Shares and Options (Held at date of resignation) | 200,000 Ordinary Shares<br>18,553 unlisted options expiring 24 June 2024 exercisable at $0.1125 |
| Directorships held in other listed entities (last 3 years) | Cycliq Group Limited (ceased 7 May 2019) |

**Information on Company Secretary**

| | |
|---|---|
| ***Mr Stephen Buckley*** | Company Secretary |
| Qualifications | GAICD |
| Experience | Mr Buckley has over 39 years' experience in financial markets and is a director of Governance Corporate Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. In the 20 years prior to starting his own business, Mr Buckley has held executive and senior leadership roles in partnership management and business development. |

**Meetings of Directors**

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director. During the financial year, 16 board meetings were held.

| | DIRECTORS' MEETINGS | |
|---|---|---|
| | **Held** | **Attended** |
| Eden Attias | 16 | 16 |
| Christopher Clark (i) | 1 | 1 |
| Dan Arazi | 16 | 15 |
| Stephen Gorenstein | 16 | 14 |
| Chris Singleton | 16 | 15 |

(i) Appointed on 3 December 2020

**Options**

At the date of this report, the number of Options on issue are as follows:

| Expiry Date | Issue Date | Exercise Price | Number of Options |
|---|---|---|---|
| 13 June 2023 | 13 June 2018 | A$0.0027 | 7,590,418[i] |
| 13 June 2021 | 13 June 2018 | A$0.30 | 4,000,000[ii] |
| 17 April 2024 | 17 April 2019 | A$0.1125 | 955,480[iii] |
| 24 June 2024 | 24 June 2019 | A$0.1125 | 953,544[iv] |
| 5 November 2024 | 5 November 2019 | A$0.09 | 948,053[v] |
| | | | 1**4,447,495** |

[i] Replacement options to replace the options held by employees of ParaZero Israel under an employee option scheme adopted by ParaZero Israel at a date prior to its entry into the Acquisition in the prior year.

[ii] Options issued to lead manager and seed investors.

[iii] Options issued pursuant to a Placement.

[iv] Options issued pursuant to a Placement.

[v] Options issued pursuant to a Placement.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

There were no shares issued during the financial year as a result of exercise of an option. Subsequent to the end of the financial year and on 10 February 2021, 579,201 shares were issued at $0.0027 per share on the exercise of options (2019: nil).

**Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

**Indemnification and insurance of directors and officers**

During the year, Delta Drone paid a premium to insure directors and officers of the Group. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

The Company has agreed, to the extent permitted by law, to indemnify each director and Company Secretary of the Company against any and all reasonable liabilities incurred in respect of or arising out of any act in the course of their role as an officer of the Company.

**Environmental Regulations**

In the normal course of business, there are no environmental regulations or requirements that the Company is subject to.

**Likely Developments and Expected Results of Operations**

The Group continues to be a drone-based data service and technology solutions provider for the mining, agricultural and engineering industries. It provides aerial surveying and mapping, security and surveillance and blast monitoring and fragment analysis through a fully-outsourced service and fast data turnaround that allows enterprise customers to focus on their operations on the ground while DLT takes care of everything in the air, including compliance and maintenance.

**Events after the reporting period**

On 4 February 2021, the Company announced that it was to become the first organisation to provide specialised Remote Pilot License (RPL/RePL) drone courses in Africa in conjunction with the University of Pretoria. First student intake is scheduled in April 2021.

On 10 February 2021, 579,201 shares were issued as a result of the exercise of 579,201 unquoted options with an exercise price of $0.0027. The shares are held by a Trustee under a holding lock provision for 12 months following their issue.

On 15 February 2021, the Company announced it had expanded operations into Zambia to deliver a specialised agricultural project for leading multinational agriculture services company, Syngenta.

On 25 February 2021, the Company announced that it had signed a confidential security service contract with a multi-national mining organisation for air surveillance at one of its African locations. Whilst the client and location could not be disclosed for security reasons, the initial six-month contract (with option to renew) will generate $340,000 revenue to DLT's subsidiary, Rocketmine, for providing unmanned aerial vehicle (UAV) surveillance services.

On 2 March 2021, the Company announced that it had signed its largest multinational OEM (original equipment manufacturer) integration deal with industrial equipment world-leader, Doosan Mobility Innovation. The multi-phase project to generate initial revenue in excess of $150,000 and will include R&D coordination, system architecture, design, ground deployment testing, system finalisation and ASTM F3322-18 (American Society for Testing and Materials) testing and certification.

On 10 March 2021, the Company issued 625,000 shares at a value of $0.031 per share to Pitt Street Research in lieu of a cash payment for providing research services. The shares are being held under a voluntary escrow arrangement until 9 March 2022 and the securities have had a holding lock placed on them to restrict them from trading.

The impact of the coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting period. The timing, extent of the impact and recovery from COVID-19 on our employees, customers and suppliers is unknown at this stage. The full impact of COVID-19 outbreak continues to evolve as at the date of this report. As such, the Group is unable to estimate the effects of the COVID-19 outbreak on the Group's financial position, liquidity and operations in the 2021 financial year.

There were no other material events after the reporting period other than the above.

**Indemnification of auditors**

To the extent permitted by law, the Company has agreed to indemnify its auditors, BDO Audit (WA) Pty Ltd, as part of the terms of its engagement agreement against claims by third parties arising from their report on the financial report. No payment has been made to indemnify BDO Audit (WA) Pty Ltd during or since the end of the financial year.

**Non-audit Services**

During the year, BDO Audit (WA) Pty Ltd, the Company's auditor provided non-audit services of $60,600 in relation to the Independent Limited Assurance Report for inclusion in the Company's Prospectus.

The directors are satisfied that the provision of non-audit services during the financial year by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

Full details or the auditor's remuneration can be found within the financial statements at Note 9.

**Corporate Governance**

At Delta Drone International Limited, we aim to entrench good corporate governance practices throughout the entire Company. This is the collective responsibility of the Board and all levels of management. At Delta Drone, we seek to apply our policies and charters in a manner consistent with our Statement of Values. The Company's Corporate Governance Statement can be found on the Company's website at www.dlti.com.au. The Corporate Governance Plan, incorporating the charters and policies, was adopted by the Board on 4 February 2020 and is current as at the date of this report.

**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 31 December 2020 has been received and can be found on page 17 of the financial report.

**Remuneration Report (Audited)**

This remuneration report for the year ended 31 December 2020 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth), as amended (Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements
4. Non-executive director fee arrangements
5. Details of remuneration
6. Additional disclosures relating to equity instruments
7. Loans to/from key management personnel (KMP) and their related parties
8. Other transactions and balances with KMP and their related parties
9. Voting of Shareholders at last year's annual general meeting

**1. Introduction**

Key Management Personnel (KMP) have authority and responsibility for planning, directing and controlling the major activities of the Group. KMP comprise the directors of the Company and identified key management personnel. Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Board may seek independent advice on the appropriateness of compensation packages, given trends in comparable companies both locally and internationally and the objectives of the Group's compensation strategy.

Key management personnel covered in this report are as follows:

| Name | Title | Appointed |
|---|---|---|
| Eden Attias | Executive Chairman (i) | 13 June 2018 |
| Christopher Clark | Chief Executive Officer | 3 December 2020 |
| Dan Arazi | Non-Executive Director | 13 June 2018 |
| Stephen Gorenstein | Non-Executive Director | 17 October 2018 |
| Chris Singleton | Non-Executive Director | 1 January 2019 |

(i) Mr Attias was Chief Executive Officer and Chairman from his appointment date till 3 December 2020. He reverted to Executive Chairman position on 3 December 2020.

**2. Remuneration governance**

The Directors believe the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of a separate remuneration committee. Accordingly, all matters are considered by the full Board of Directors, in accordance with a remuneration committee charter.

During the financial year ended 31 December 2020, the Company did not engage any remuneration consultants.

**3. Executive remuneration arrangements**

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages may include a mix of fixed compensation, equity-based compensation, as well as employer contributions to superannuation funds. Shares and options may only be issued subject to approval by shareholders in a general meeting.

At the date of this report the Company has two (2) appointed executives, Mr Eden Attias as Executive Chairman and Christopher Clark as Chief Executive Officer. The terms of their Executive Services Agreement with Delta Drone are summarised in the following table.

| Executive Name | Agreement summary |
|---|---|
| Eden Attias | • Executive salary of $225,000.<br>• Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the Group's reimbursement policies.<br>• The Agreement is terminable by either party on 90 days' notice but may be terminated immediately where either party commits a material breach of the Agreement, including for not performing the services under the Agreement. |
| Christopher Clark | • Effective 1 March 2021, a total remuneration package of $195,000 per annum including statutory superannuation. During the financial year 2020, Mr Clark was employed in an executive position with Delta Drone South Africa (Pty) Ltd. Mr Clark was paid a monthly base fee of R67,536 together with monthly allowances of approximately R32,239 per month.<br>• Participation in the Company's incentive programs.<br>• Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the Group's reimbursement policies.<br>• The Agreement may be terminated by either party giving four (4) months' notice and the Agreement may be terminated immediately if Mr Clark is engaged in conduct justifying summary dismissal.<br>• Non-compete and non-solicitation restraints in place for up to six months following cessation of employment. |

At this stage the Board does not consider the Group's earnings or earnings-related measures to be an appropriate key performance indicator (KPI). In considering the relationship between the Group's remuneration policy and the consequences for the Company's shareholder wealth, changes in share price are analysed as well as measures such as successful completion of business development and corporate activities.

*Performance Conditions Linked to Remuneration*

The Group maintains an Option Plan known as ParaZero Limited 2018 Employee Share Option Plan ("Plan") to provide ongoing incentives to Eligible Participants of the Company. Eligible Participants include:

- a Director (whether executive or non-executive) of any Group Company;
- a full or part time employee of any Group Company;
- a casual employee or contractor of a Group Company; or
- a prospective participant, being a person to whom the Offer was made but who can only accept the Offer if arrangement has been entered into that will resulting in the person becoming an Eligible Participant.

The Board adopted the Plan to allow Eligible Participants to be granted Options to acquire shares in the Company.

The purpose of the Plan is to provide an incentive, in the employment or service or directorship of Delta Drone and its subsidiaries, persons of training, experience and ability to attract new employees, directors or consultants whose services are considered valuable, to encourage the sense of proprietorship of such persons and to stimulate the active interest of such persons in the development and financial success of the Company by providing them with opportunities to purchase shares in the Company. No Options were issued to executives under the Plan during the 2020 financial year (2019: nil).

**4. Non-executive director fee arrangements**

The Board policy is to remunerate non-executive directors at a level to comparable companies for time, commitment, and responsibilities. Non-executive directors may receive performance related compensation. Directors' fees cover all main Board activities and membership of any committee. The Board has no established retirement or redundancy schemes in relation to Non-executive directors.

The maximum aggregate amount of fees that can be paid to non-executive directors is presently limited to an aggregate of $300,000 per annum and any change is subject to approval by shareholders at the General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, directors are encouraged to hold shares in the Company.

Total fees for non-executive directors for the financial year were $120,000 (2019: $132,347) and cover main Board activities only. Non-executive directors may receive additional remuneration for other services provided to the Group. All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

**5. Details of Remuneration**

The Key Management Personnel of Delta Drone includes the current and former directors of the Company and Key Management Personnel of Delta Drone during the year ended 31 December 2020.

| **31 December 2020** | **Short term salary, fees & commissions** | **Post-employment retirement benefits** | **Other** | **Share-based payments (i)** | **Total** | **Performance based remuneration** |
|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | |
| ***Directors:*** | | | | | | |
| E. Attias | 192,021 | - | - | - | **192,021** | - |
| C. Clark (ii) | 82,538 | 770 | 37,526 | - | **120,834** | - |
| D. Arazi | 40,000 | - | - | - | **40,000** | - |
| S. Gorenstein | 40,000 | - | - | - | **40,000** | - |
| C. Singleton | 40,000 | - | - | - | **40,000** | - |
| **Total** | **394,559** | **770** | **37,526** | **-** | **432,855** | **-** |

(i) Share-based payment expense is recorded pro-rata over the vesting period. Refer to Section 6 Additional disclosures relating to equity instruments for further information on share-based payments granted to directors and key management during the year.
(ii) Appointed 3 December 2020. The remuneration for 31 December 2020 represents remuneration paid to Mr Clark for the financial year 2020 whilst a director of Delta Drone South Africa (Pty) Ltd. Other remuneration includes pension, medical and life insurances and other statutory employment benefits.

| **31 December 2019** | **Short term salary, fees & commissions** | **Post-employment retirement benefits** | **Other** | **Share-based payments (i)** | **Total** | **Performance based remuneration** |
|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | |
| ***Directors:*** | | | | | | |
| Eden Attias | 263,216 | - | - | - | **263,216** | - |
| Dan Arazi | 25,680 | - | - | - | **25,680** | - |
| Stephen Gorenstein | 40,000 | - | - | - | **40,000** | - |
| Charis Law (ii) | 26,667 | - | - | - | **26,667** | - |
| Chris Singleton | 40,000 | - | - | - | **40,000** | - |
| **Total** | **395,563** | **-** | **-** | **-** | **395,563** | **-** |

(i) Share-based payment expense is recorded pro-rata over the vesting period. Refer to Section 6 Additional disclosures relating to equity instruments for further information on share-based payments granted to directors and key management during the year.
(ii) Ceased 1 September 2019.

**6. Additional disclosures relating to equity instruments**

**KMP Shareholdings**

The number of ordinary shares in Delta Drone held by each KMP of the Group during the financial year is as follows:

| 31 December 2020 | Balance at start of the year | Shares issued during the year | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| ***Directors:*** | | | | |
| Eden Attias | 559,717 | - | - | 559,717 |
| Christopher Clark (i) | - | - | - | - |
| Dan Arazi | 359,800 | - | - | 359,800 |
| Stephen Gorenstein | 400,000 | - | - | 400,000 |
| Chris Singleton | 200,000 | - | - | 200,000 |
| **Total** | **1,519,517** | **-** | **-** | **1,519,517** |

(i) Appointed 3 December 2020.

**KMP Options Holdings**

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

| 31 December 2020 | Balance at start of the year | Issued during the year | Other changes (i) | Balance at end of the year | Vested and exercisable | Unvested and unexercisable |
|---|---|---|---|---|---|---|
| ***Directors:*** | | | | | | |
| Eden Attias | 23,635,943 | - | (18,000,000) | 5,635,943 | 5,635,943 | - |
| Chris Clark (ii) | - | - | - | - | - | - |
| Dan Arazi | 25,956 | - | - | 25,956 | 25,956 | - |
| Stephen Gorenstein | 637,106 | - | (600,000) | 37,106 | 37,106 | - |
| Chris Singleton | 618,553 | - | (600,000) | 18,553 | 18,553 | - |
| **Total** | **24,917,558** | **-** | **(19,200,000)** | **5,717,558** | **5,717,558** | **-** |

(i) Amounts in 'Other changes' refers to cancellation of Performance Options on 25 September 2020.
(ii) Appointed 3 December 2020.

**Terms and conditions of share-based payment arrangements**

No share-based payment expenses were recorded in the 2020 financial year (2019: nil)

**7. Loans to/from key management personnel (KMP) and their related parties**

There were no loans to/from key management personnel and their related parties in the 2020 (2019: nil).

**8. Other transactions and balances with KMP and their related parties**

Transactions with related parties are entered into on terms equivalent to those that prevail in arm's length transactions. The Group had no other transactions with members of the Group's key management personnel and/or their related parties during the year.

**9. Voting of shareholders at last year's annual general meeting**

The Company received 99.97% "Yes" votes cast on its Remuneration Report for the 2019 financial year. The Company did not receive any specific feedback at the Annual General Meeting regarding its remuneration policies.

**THIS IS THE END OF THE AUDITED REMUNERATION REPORT**

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001*.

**On behalf of the Directors**

**Christopher Clark**
***Chief Executive Officer***
Perth, 31 March 2021

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
**www.bdo.com.au**

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

**DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF DELTA DRONE INTERNATIONAL LIMITED**

As lead auditor of Delta Drone International Limited for the year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Delta Drone International Limited and the entities it controlled during the period.

**Dean Just**

**Director**

**BDO Audit (WA) Pty Ltd**

Perth, 31 March 2021

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020 | 2019 |
|---|---|---|---|
| | | $ | $ |
| Revenue | 5 | 3,369,115 | 3,525,073 |
| Cost of sales | | (1,398,727) | (1,532,040) |
| **Gross profit** | | **1,970,388** | **1,993,033** |
| | | | |
| Other income | | 68,519 | 111,257 |
| Gains from disposal of assets | | 20,332 | 29,631 |
| Employee benefits expenses | | (822,905) | (850,565) |
| Sales and marketing expenses | | (8,572) | (225,377) |
| General and administrative expenses | 6 | (1,082,800) | (690,963) |
| Amortisation of intangible assets | 16 | (51,983) | (88,777) |
| Depreciation expenses | 14 | (125,152) | (133,931) |
| **(Loss)/profit before finance expenses** | | **(32,173)** | **144,308** |
| Finance income | | 26,292 | 37,255 |
| Finance expenses | 6 | (23,064) | (15,677) |
| **(Loss)/profit before income tax** | | **(28,945)** | **165,886** |
| Income tax expense | 7 | (86,446) | (8,457) |
| **(Loss)/profit for the year** | | **(115,391)** | **157,429** |
| | | | |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation differences | | 454,230 | (35,309) |
| **Total comprehensive income for the year** | | **338,839** | **122,120** |
| | | | |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of Delta Drone International Limited | | (183,959) | 128,289 |
| Non-controlling interest | | 68,568 | 29,140 |
| | | (115,391) | 157,429 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of Delta Drone International Limited | | 271,243 | 93,038 |
| Non-controlling interest | | 67,596 | 29,082 |
| | | 338,839 | 122,120 |
| **(Loss)/earnings per share** | | | |
| Basic and diluted (cents per share) | 10 | (0.001) | 0.001 |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 11a | 5,182,923 | 784,604 |
| Trade and other receivables | 12 | 964,746 | 675,663 |
| Deposits | | 35,531 | 17,968 |
| Inventory | 13 | 490,315 | 17,596 |
| **TOTAL CURRENT ASSETS** | | **6,673,515** | **1,495,831** |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | 480,289 | 573,064 |
| Right-of-use assets | 17 | 177,304 | 202,462 |
| Intangible assets | 16 | 4,702,730 | 87,019 |
| Goodwill | 15 | 2,259,414 | 667,590 |
| Deferred tax assets | 7 | 50,930 | 81,758 |
| **TOTAL NON-CURRENT ASSETS** | | **7,670,667** | **1,611,893** |
| **TOTAL ASSETS** | | **14,344,182** | **3,107,724** |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 18 | 922,600 | 116,477 |
| Bank overdraft | | 80,683 | - |
| Lease liability | 17 | 79,194 | 87,106 |
| Other financial liability | 20 | 39,969 | - |
| Borrowings | 19 | 506,839 | 3,354,742 |
| **TOTAL CURRENT LIABILITIES** | | **1,629,285** | **3,558,325** |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Other financial liability | 20 | 364,201 | - |
| Deferred tax liability | 7 | 761,169 | 25,926 |
| Lease liability | 17 | 122,642 | 139,634 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,248,012** | **165,560** |
| **TOTAL LIABILITIES** | | **2,877,297** | **3,723,885** |
| | | | |
| **NET ASSETS** | | **11,466,885** | **(616,161)** |
| | | | |
| **EQUITY** | | | |
| Issued capital | 21 | 12,904,061 | 1,159,854 |
| Reserves | 22 | (968,570) | (968,570) |
| Foreign currency translation reserve | 22 | 419,845 | (35,357) |
| Accumulated losses | 23 | (963,472) | (779,513) |
| Equity attributable to owners of the parent | | 11,391,864 | (623,586) |
| Non-controlling interest | | 75,021 | 7,425 |
| **TOTAL EQUITY** | | **11,466,885** | **(616,161)** |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2020

| | Issued capital | Reserves | Foreign currency translation reserve | Accumulated losses | Total attributable to Equity Holders of the Company | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | A$ | A$ | A$ | A$ | A$ | A$ | A$ |
| **Balance at 1 January 2019** | **99** | **-** | **(106)** | **(907,820)** | **(907,809)** | **(21,657)** | **(929,467)** |
| Profit/(loss) for the year | - | - | - | 128,289 | 128,289 | 29,140 | 157,429 |
| Other comprehensive loss | - | - | (35,251) | - | (35,251) | (58) | (35,309) |
| Total comprehensive income/(loss) for the year | - | - | (35,251) | 128,289 | 93,038 | 29,082 | 122,120 |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Conversion of DD SA (French Joint Stock Company) loan to equity | 1,159,755 | - | - | - | 1,159,755 | - | 1,159,755 |
| Transactions under common control | - | (968,570) | - | - | (968,570) | - | (968,570) |
| **Balance at 31 December 2019** | **1,159,854** | **(968,570)** | **(35,357)** | **(779,513)** | **(623,586)** | **7,425** | **(616,161)** |
| | | | | | | | |
| **Balance at 1 January 2020** | **1,159,854** | **(968,570)** | **(35,357)** | **(779,513)** | **(623,586)** | **7,425** | **(616,161)** |
| Profit/(loss) for the year | - | - | - | (183,959) | (183,959) | 68,568 | (115,391) |
| Other comprehensive income/(loss) | - | - | 455,202 | - | 455,202 | (972) | 454,230 |
| Total comprehensive income/(loss) for the year | - | - | 455,202 | (183,959) | 271,243 | 67,596 | 338,839 |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Reverse Acquisition (refer to Note 4) | 5,563,284 | - | - | - | 5,563,284 | - | 5,563,284 |
| Issue of shares | 6,815,530 | - | - | - | 6,815,530 | - | 6,815,530 |
| Share issue costs | (634,607) | - | - | - | (634,607) | - | (634,607) |
| **Balance at 31 December 2020** | **12,904,061** | **(968,570)** | **419,845** | **(963,472)** | **11,391,864** | **75,021** | **11,466,885** |

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020<br>A$ | 2019<br>A$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | | 3,761,123 | 4,512,607 |
| Payments to suppliers and employees | | (3,483,788) | (3,484,544) |
| Interest received | | 26,292 | 37,255 |
| Finance expenses | | (2,918) | (15,677) |
| Taxes paid | | - | (52,224) |
| **Net cash from operating activities** | 11b | **300,709** | **997,417** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of plant and equipment | | (339,117) | (311,956) |
| Proceeds on disposal of plant and equipment | | 91,376 | 50,145 |
| Cash acquired on acquisition of subsidiary | 4 | 247,104 | 2,036 |
| Payments for deposits (equipment and rental) | | (19,876) | - |
| **Net cash (used in) investing activities** | | **(20,513)** | **(259,775)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net proceeds from the issue of shares | | 4,395,356 | - |
| Repayment of lease liabilities | | (112,563) | (69,179) |
| Repayment of borrowings | | (167,707) | (242,543) |
| **Net cash from/(used in) financing activities** | | **4,115,086** | **(311,722)** |
| **Net increase in cash and cash equivalents** | | **4,395,282** | **425,920** |
| Cash and cash equivalents at the beginning of the financial year | | 784,604 | 353,809 |
| Impact of movement in foreign exchange rates | | 3,037 | 4,875 |
| **Cash and cash equivalents at the end of the financial year** | **11a** | **5,182,923** | **784,604** |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

## CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTE 1: GENERAL INFORMATION**

These consolidated financial statements cover Delta Drone International Limited ("the Company" or "Delta Drone") and its controlled entities as a consolidated entity (also referred to as Group). Delta Drone is a company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity. The financial report is presented in Australian Dollar ("$") unless stated otherwise.

The financial statements were authorised for issue by the board of directors on 31 March 2021.

**NOTE 2: BASIS OF PREPARATION**

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) adopted by the Australian Accounting Standard Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of financial assets and financial liabilities. The amounts presented in the financial statements have been rounded off to the nearest dollar unless stated otherwise.

**Going Concern**

These consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

On 22 December 2020, the Company announced that it had raised $5,000,000 (before transaction costs) pursuant to a Prospectus via an offer of 125,000,000 fully paid ordinary shares at an issue price of $0.04 per share, with the funds to be utilised or the Group's drone-based data services and technology activities. As at 31 December 2020, the Group had $5,182,923 in cash and cash equivalents.

The Directors of the Company are of the opinion that the Group is in a position to carry on operations for the foreseeable future and that it will be able to realise its assets and discharge its liabilities in the normal course of business.

***<u>Significant estimates, judgements and key assumptions</u>***

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

*Reverse Acquisition*

On 3 December 2020, shareholders of Delta Drone International Limited ("Delta Drone" or "DLT") (*formerly ParaZero Limited*) approved the acquisition of Delta Drone South Africa (Pty) Ltd ("DDSA") from Delta Drone SA (a public company incorporated in France) pursuant to which the Company acquired 100% of the issued capital in DDSA ("Transaction"). The Transaction, which became effective on 22 December 2020 has been accounted for as a reverse acquisition under the accounting standards. DDSA is identified as the accounting acquirer (legal acquiree) and Delta Drone International Limited is the accounting acquiree (legal acquirer).

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

As such, the consolidated financial statements will be issued under the name of DLT but described in the notes as a continuation of the financial statements of DDSA. The comparative information for the year ended 31 December 2019 is that of DDSA.

The implications of the acquisition by DDSA on the financial statements are as follows:

(i) Statement of Profit or Loss and other Comprehensive Income

- The statement of profit or loss and other comprehensive income comprises the total comprehensive income for the 12 months ended 31 December 2020 for DDSA and its wholly owned subsidiaries; for the period 22 December 2020 to 31 December 2020 for DLT.
- The statement of profit or loss and other comprehensive income for the year ended 31 December 2019 comprises the results of DDSA and its wholly owned subsidiaries only.

(ii) Statement of Financial Position

- The statement financial position as at 31 December 2020 represents the combination of DDSA and its wholly owned subsidiaries with DLT.
- The statement of financial position as at 31 December 2019 represents DDSA and its wholly owned subsidiaries as at 31 December 2019.

(iii) Statement of Change in Equity

- The statement of changes in equity comprises:
  - the equity balance of DDSA at the beginning of the financial year (1 January 2020).
  - the total comprehensive income/loss for the financial year and transactions with equity holders being 12 months for DDSA and its wholly owned subsidiaries and for the period 22 December 2020 to 31 December 2020 for DLT.
  - the equity balance of the combined DDSA and its wholly owned subsidiaries and DLT.
- The statement of changes in equity comparatives comprise the full financial year for DDSA and its wholly owned subsidiaries for the 12 months ended 31 December 2019.

(iv) Statement of Cash Flows

- The statement of cash flows comprises:
  - the cash balance of DDSA and its wholly owned subsidiaries at the beginning of the financial year (1 January 2020).
  - the transactions for the financial year for DDSA and its wholly owned subsidiaries for the 12 months ended 31 December 2020 and for DLT from 22 December 2020 to 31 December 2020.
- The statement of cash flows comparative comprises the full financial year of DDSA and its wholly owned subsidiaries for the year ended 31 December 2019.

*Determination of a Business*
The Transaction above has been accounted for as a business combination. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Delta Drone International Limited is deemed to meet this criterion and accordingly has been accounted for as a business.

*Business combinations*
Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting are retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

*Provision for impairment of inventories*
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account recent sales experiences, the ageing of inventories and other factors that affect inventory obsolescence.

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

*Share based payments*
The Group initially measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

The estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them, as well as an assessment of the probability of achieving non-market based vesting conditions.

*Fair value of long -term liabilities*
Israeli Innovation Authority grants: The Group measured its liability on governmental grant received, each period, based on discounted cash flows derived from the Group's anticipated revenues. The grant is repayable upon the Group commencing product commercialisation and generating revenue from sale of product, with repayments being based on 3% of each dollar of revenue. As required by AASB 9 *Financial Instruments*, the liability has been recognised at fair value on initial recognition and subject to management's estimate of discount rate and the timing and quantity of future revenues.

*Taxation*
Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the consolidated statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustments, resulting in a corresponding credit or charge to the income statement.

*USA Licenses, Technology and Customer Relationships Intangibles*
The USA Licenses, Technology and Customer Relationships intangibles were acquired as part of the business combination (refer to note 4 for additional details). The contracts and relationships are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight line based on the timing of projected cash flows of the contracts over their estimated useful lives. The fair value of the intangibles was determined using the following key assumptions:

- Assumed level of future revenue
- Assumed present value of net expected cash flows

Impairment
Judgement is required in assessing whether goodwill has suffered any impairment on an annual basis. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit (CGU) based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Refer to note 15 for further information.

*Coronavirus (COVID-19) pandemic*
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. As address in the financial report, the full impact of COVID-19 outbreak continues to evolve as at the date of this report. As such, the Group is unable to estimate the effects of the COVID-19 outbreak on the Group's financial position, liquidity and operations in the 2021 financial year.

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES**

**a) Principles of Consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investments retained;
- Recognises any surplus or deficit in profit and loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

**b) Income Tax**

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**c) Leases**

**The Group as a lessee**

At inception of a contract, the Group assesses if the contract contains characteristics of a lease. If there is a lease present, a right-of-use asset and a corresponding liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e., leases with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially, the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on the index of the rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise its options;
- lease payments under extension profits, if the lessee is reasonably certain to exercise its options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of options to terminate the lease.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

The right-of-use assets comprise the initial measurement of the corresponding liability, any lease payments made at or before the commencement date and initial direct costs. The subsequent measurement of the right-of-use asset is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the costs of the right-of-use asset reflects that the Group anticipates exercising a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

**d) Financial Instruments**

**Initial recognition and measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transaction costs where the financial instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below:

**Classification and subsequent measurement**

**(i) Financial assets at amortised cost**

Financial assets are measured at amortised cost if the assets meet with the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**(ii) Financial liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**(iii) Loans and borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Derivative instruments**

The Group does not trade or hold derivatives.

**Financial guarantees**

The Group has no material financial guarantees.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flow expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**e) Impairment of non-financial assets**

At the end of each reporting period, the Directors assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits.

If any such indication exists, an impairment test is carried out on the asset by comparing the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

**f) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks with original maturity of three months or less.

**g) Trade receivables**

Trade receivables, which generally have 0-60-day terms, are recognised and carried at original invoice amount. Collectability of trade receivables is reviewed on an ongoing basis. An impairment provision will be recognised when there is objective evidence that Company will not be able to collect the receivable. Bad debts will be written off when identified.

## CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average principle and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### i) Revenue recognition

Revenue is recognised based on the five-step model outlined in *AASB 15 Revenue from Contracts with Customers*.
The Group derives its revenue from:

- rendering of services; and
- rental income.

***Revenue from rendering of services and rental income***
Revenue from the transfer of services and rental income is recognised over time.

### j) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, less its residual value. An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives for the current and comparative periods are as follows:

- Computers – 3 years
- Furniture and equipment – 3-17 years
- Leasehold improvements – the shorter of the lease term and the useful life
- Buildings – 2-3 years
- Leasehold land – Over lease period
- Leased property and licenses – 10%
- Plant and equipment – 10%-67%

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

### k) Goods and Services Tax (GST)/Value Added Tax (VAT)

Revenues, expenses, and assets are recognised net of the amount of GST/VAT, except where the amount of GST/VAT incurred is not recoverable from the Australian Tax Office (ATO)/Israeli Tax Authority (ITA)/South African Revenue Service (SARS).

Receivable and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of the GST/VAT recoverable from, or payable to, the ATO/ITA/SARS is included with other receivables and payables in the statement of financial position. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST/VAT component of investing and financing activities, which are disclosed as operating cash flows.

## CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**l) Employee Benefits**

**Post-employment benefits**

***Israel***

The liability for severance pay is in accordance with obligations under Israeli employment law (Section 14 of the Severance Compensation Act 1963). All Israeli based employees are included under Section 14 and are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in the employee's name with insurance companies or pension funds. Under Israeli employment law, payments in accordance with Section 14 release the Company from any future severance payments. The funds are made available to the employee at the time the employer-employee relationship is terminated, regardless of the cause of termination. The severance pay liabilities and deposits under Section 14 are not reflected in the statement of financial position as the severance pay risks have been irrevocably transferred to the insurance companies or severance funds.

***South Africa***

The Basic Conditions of Employment Act ("Act") applies to all South African employees. The basic conditions of employment contained in the Act form part of the contract of employees covered by the Act. Some, but not all, basic conditions of employment may be varied by individual or collective agreements in accordance with provisions of the Act. A retrenched employee is entitled to at least 1 week's pay for each completed year of ongoing service. However, the employer must pay the retrenched employee the amount specified in any policy or his/her employment contract, if that amount is larger. All staff are entitled to group risk cover.

**Short term employee benefits**

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

**m) Equity-settled compensation**

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. The fair value of performance right options is determined using the satisfaction of certain performance criteria (Performance Milestones). The number of shares option and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The fair value is determined using either a Black Scholes or Monte Carlo simulation model depending on the type of share-based payment.

**n) Trade and other payables**

Liabilities for trade creditors and other amounts carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest, when charged by the lender, is recognised as an expense on an accruals basis.

**o) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

## CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**p) Equity and reserves**

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits. The option reserve records the value of share-based payments.

**q) Foreign currency transactions and balances**

**Functional and presentation currency**

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised other comprehensive income, otherwise the exchange difference is recognised in profit or loss.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed of.

**r) Segment information**

**Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The Group's sole operating segment is consistent with the presentation of these consolidated financial statements.

**s) Share-based payments**

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**t) Earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to member of the parent entity, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year (if any).

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**u) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued in the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into or replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the profit or loss as a bargain purchase.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 9 Financial Instruments, or AASB 137 Provisions, Contingent Liabilities and Contingent Assets as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

**v) Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**w) Intangible Assets**

Intangible assets acquired in a business combination have been identified as US licenses, Technology and Customer Relationships and are recognised separately from goodwill at their fair value at the acquisition date. The estimate useful lives for each of the three identified categories are:

- USA licenses 8 years
- Technology 8 years
- Customer Relationships 10 years

Intangible assets with finite lives are amortised over the useful life and assessed for impairment at each reporting period or whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method are reviewed at least each financial year end. Changes in the expected useful life or flow of economic benefits intrinsic in the asset are an accounting estimate. The amortisation charge on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**x) Research and development expenses**

Research and development expenses are recognised in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognised if the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Group's intention to complete the intangible asset; and the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development. Since the Group's research and development projects are often subject to regulatory approval procedures and other uncertainties, the conditions for the capitalisation of costs incurred before receipt of approvals are not normally satisfied, and, therefore, research and development expenses are recognised in profit or loss when incurred.

**y) Right of Use Assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**z) Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in its normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in its normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**aa) Comparatives**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**NOTE 4: ACQUISITION OF DELTA DRONE SOUTH AFRICA (PTY) LTD**

**Reverse Acquisition**

On 3 December 2020, shareholders of Delta Drone International Limited ("DLT") approved the acquisition of 100% of the issued capital of Delta Drone South Africa (Pty) Ltd ("DDSA") from Delta Drone SA (a public company incorporated in France) ("Acquisition"). On 22 December 2020, the Company completed the Acquisition of DDSA in exchange for 203,512,750 ordinary shares in the Company.

Refer to Note 2 for further information.

The Acquisition has been accounted for on a provisional basis. As at the date of acquisition (22 December 2020), the assets and liabilities of the Company were as follows:

| | | 2020 $ |
|---|---|---|
| **a)** | **Assets and Liabilities at Acquisition Date** | |
| | Cash and cash equivalents | 247,104 |
| | Inventory | 480,850 |
| | Other current assets | 284,255 |
| | Other non-current assets | 82,337 |
| | Loan ceded by Delta Drone SA (France) | 2,185,882 |
| | Trade and other payables | (1,251,044) |
| | Other current liabilities | (80,652) |
| | Loan from third party | (502,631) |
| | Other non-current liabilities | (404,172) |
| | Convertible notes | (1,088,235) |
| | **Net liabilities of DLT at acquisition date** | **(46,306)** |

**b) Deemed consideration**

The consideration was the issue of shares in DLT (legal parent) which was deemed to be A$5,563,284 based on the following:

| | |
|---|---|
| Ordinary shares of DLT (*formerly ParaZero Limited*) prior to Acquisition | 139,082,099 |
| Share price based on capital raising per Prospectus | $0.04 |
| **Deemed consideration** | **$5,563,284** |

| | | |
|---|---|---|
| **c)** | **Purchase Price to be allocated** | **$5,609,590** |

**d) Allocation of Purchase Price**

| | |
|---|---|
| • US License | 1,569,000 |
| • Deferred tax liability (i) | (251,000) |
| • Technology | 734,000 |
| • Deferred tax liability (i) | (117,000) |
| • Customer Relationships | 2,376,000 |
| • Deferred tax liability (i) | (380,000) |
| • Goodwill | 1,678,590 |
| | **5,609,590** |

(i) Based on a corporate tax rate of 16%. The Group has reported provisional amount for goodwill as part of the purchase of DDSA.

| NOTE 5: REVENUE | 2020 $ | 2019 $ |
|---|---|---|
| **Disaggregation of revenue from contracts with customers:** | | |
| Rendering of services | 1,992,126 | 1,462,477 |
| Rental income | 1,376,989 | 2,062,596 |
| Total | 3,369,115 | 3,525,073 |
| | | |
| **Timing of revenue recognition** | | |
| At a point in time | - | - |
| Over time | 3,369,115 | 3,525,073 |
| Total | 3,369,115 | 3,525,073 |

All revenue recognised was derived in Africa.

| NOTE 6: EXPENSES<br>Loss before income tax from continuing operations includes the following specific expenses: | 2020 $ | 2019 $ |
|---|---|---|
| ***General and administration expenses:*** | | |
| - Consulting and professional expenses | 467,655 | 122,629 |
| - IT expenses | 157,916 | 144,789 |
| - Legal expenses | 74,534 | 78,271 |
| - Insurances | 19,435 | 20,415 |
| - Occupancy expenses | 68,243 | 22,564 |
| - Advertising and marketing | 154,559 | 18,544 |
| - Other expenses | 140,458 | 283,751 |
| Total general and administration expenses | 1,082,800 | 690,963 |
| | | |
| ***Finance expenses:*** | | |
| - Interest and bank fees | 4,207 | 31 |
| - Interest on lease liabilities | 15,058 | 15,646 |
| - Exchange rate differences | 572 | - |
| - Related parties’ interest | 3,227 | - |
| Total finance expenses | 23,064 | 15,677 |

## NOTE 7: INCOME TAX

The legal parent is incorporated and domiciled in Australia where the applicable tax rate is 26% (2019: 27.5%). The applicable tax rate in Israel is 23% (2019: 23%) and in South Africa is 28% (2019: 28%).

| **(a) The numerical reconciliation of income tax expense to the prima facie tax payable is as follows:** | **2020 $** | **2019 $** |
|---|---|---|
| Loss/(profit) from ordinary activities before income tax expense | (28,945) | 165,886 |
| Prima facie tax benefit on loss/profit from ordinary activities | (7,526) | 45,619 |
| Movement in unrecognised temporary differences | 18,228 | - |
| Movement in temporary differences | (88,707) | (26,546) |
| Tax effect of current year losses for which no deferred tax asset has been recognised | 14,645 | - |
| Tax effect of losses utilised | (19,045) | (26,700) |
| Effect of different tax rate of group entities operating in different jurisdictions | (4,041) | (830) |
| Income tax expense | (86,446) | (8,457) |

| | | |
|---|---|---|
| **(b) Recognised temporary differences** | | |
| **Deferred Tax Assets (at 28%)** | | |
| Capital allowances | 2,201 | - |
| Leases | 6,869 | 6,785 |
| Provisions | 4,362 | 9,988 |
| Carry forward foreign tax losses | 37,498 | 64,985 |
| | 50,930 | 81,758 |
| **Deferred Tax Liabilities (at 28%)** | | |
| Prepayments | (2,496) | - |
| Capital allowances | - | (1,560) |
| Brand name | (2,025) | (4,322) |
| Licenses to operate | (8,099) | (17,287) |
| Domain, manuals and processes | (549) | (2,757) |
| | (13,169) | (25,926) |
| **Deferred tax liabilities (at 16%)** | | |
| US License | (251,000) | - |
| Technology | (117,000) | - |
| Customer Relationships | (380,000) | - |
| | (748,000) | - |

| | |
|---|---|
| **(c) Unrecognised temporary differences** | |
| **Deferred Tax Assets (at 26%)** | |
| Blackhole expenditure | 176,781 |
| Patent costs | 431 |
| Accrued expenses | 27,820 |
| Capital raising costs | 275,442 |
| Carry forward revenue tax losses | 570,935 |
| Net unrecognised deferred tax asset | 1,051,409 |

***Tax losses***

Unused tax losses for which no deferred tax asset has been recognised will be subject to the Company satisfying the requirements imposed by regulatory taxation authorities. The benefits of deferred tax assets will only be recognised if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- The conditions for deductibility imposed by tax legislation continue to be complied with; and
- No changes in tax legislation adversely affect the Company in realising the benefit.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTE 8: RELATED PARTY TRANSACTIONS**

**a) Key Management Personnel Compensation**

The totals of remuneration paid to KMP during the year are as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Short-term salary and fees | 394,559 | 243,457 |
| Social benefits | 38,296 | - |
| Total KMP Compensation | 432,855 | 243,457 |

**(b) Loans from key management personnel (KMP) and their related parties**

There were no loans between the Group and its directors or key management personnel during the year ended 31 December 2020 (2019: nil).

**(c) Loans from other related parties**

As at 31 December 2020, Delta Drone International Limited held a loan payable balance of $506,838, which was owed to Delta Drone SA (France), a related party which holds a majority shareholding in the Company. The loan bears an interest of 10% per annum. This loan balance was repaid in full post-year end.

**NOTE 9: AUDITOR'S REMUNERATION**

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **Audit services** | | |
| - Auditing and reviewing the financial reports – Australia | 35,463 | 47,381 |
| - Auditing and reviewing the financial reports – Israel | 24,008 | 26,317 |
| - Auditing and reviewing the financial reports – South Africa | 36,319 | - |
| | 95,790 | 73,698 |
| **Other non-audit services** | | |
| - Investigating Accountant's Report (BDO) – Australia | 60,600 | - |
| | 60,600 | - |

| **NOTE 10: (LOSS)/EARNINGS PER SHARE** | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **(Loss)/earnings per share (EPS)** | | |
| a) (Loss)/earnings used in calculation of basic EPS and diluted EPS | (183,959) | 128,289 |
| b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share | 144,191,756 | 135,675,167 |

The weighted average number of ordinary shares outstanding (the denominator of the EPS calculation) for the year ended 31 December 2019 has been adjusted to reflect the reverse acquisition.

| **NOTE 11a: CASH AND CASH EQUIVALENTS** | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Cash in hand and at bank | 5,182,923 | 784,604 |
| Total cash and cash equivalents in the statement of cash flows | 5,182,923 | 784,604 |

The Group's exposure to the risks associated with cash are disclosed in Note 26.

**NOTE 11b: RECONCILIATION OF LOSS AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES**

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| (Loss)/profit for the year | (28,945) | 165,886 |
| Profit on sale of assets | (20,332) | (29,631) |
| Interest received | (26,292) | (37,255) |
| Finance costs | 23,064 | 15,677 |
| Movement in right-of-use assets | 25,158 | 15,810 |
| Movement in lease liabilities | 87,659 | 60,592 |
| Foreign exchange movement on plant and equipment | 585 | 3,183 |
| Expected credit loss allowance | (5,019) | 6,914 |
| Depreciation and amortisation | 177,135 | 222,708 |
| ***Changes in assets and liabilities*** | | |
| Decrease/(increase) in trade and other receivables | (289,083) | 500,427 |
| Decrease/(increase) in inventory | (472,719) | (15,114) |
| (Decrease)/increase in trade and other payables | 829,498 | 88,220 |
| Cash flow (used in) operating activities | 300,709 | 997,417 |

**Non-cash investing and financing activities**

On 3 December 2020, shareholders of Delta Drone International Limited approved the acquisition of Delta Drone South Africa (Pty) Ltd ("DDSA") from Delta Drone SA (a public company incorporated in France). On 22 December 2020, DLT issued 203,512,750 shares to DDSA to acquire 100% of the issued capital of DDSA. The Company also issued 45,000,000 Performance Shares. Further information is detailed in Notes 2 and 4.

There were no other non-cash investing and financing activities.

| **NOTE 12: TRADE AND OTHER RECEIVABLES** | **2020** | **2019** |
|---|---|---|
| **CURRENT** | **$** | **$** |
| Trade receivables | 605,332 | 659,167 |
| Expected credit loss allowance | (7,946) | (46,917) |
| Prepaid expenses | 160,541 | 14,629 |
| Other receivables | 206,819 | 48,784 |
| | 964,746 | 675,663 |

*Classification as trade receivables*

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 to 60 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The net carrying value of trade and other receivables is considered a reasonable approximation of fair value. The Group's exposure to the risks associated with trade and other receivables are disclosed in Note 26.

**NOTE 12: TRADE AND OTHER RECEIVABLES (cont'd)**

| The ageing of amounts due is as follows: | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| 0 – 30 days | 354,523 | 313,925 |
| 30 – 60 days | 222,063 | 241,784 |
| 60 – 90 days | 7,361 | 50,858 |
| 90 – 120 days | 9,037 | 34,881 |
| 120+ days | 12,348 | 17,719 |
| | 605,332 | 659,167 |

| Reconciliation of expected credit loss provision: | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Opening balance | 46,917 | 53,973 |
| Reversed during the year | (38,971) | (7,056) |
| | 7,946 | 46,917 |

| The expected credit loss provision has been determined based on the following rates: | 2020 | 2019 |
|---|---|---|
| 0 – 30 days | 0.22% | 4.69% |
| 30 – 60 days | 0.34% | 8.43% |
| 60 – 90 days | 21.82% | 29.90% |
| 90 – 120 days | 6.29% | 0.95% |

**NOTE 13: INVENTORY**

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Inventory at cost (i) | 490,315 | 17,596 |

(i) The increase in inventory arises mainly from the Acquisition which amounts to $480,850 held by ParaZero Israel. For the Group's accounting policy on inventory, please refer to note 3(h).

**NOTE 14: PLANT AND EQUIPMENT**

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Cost | 1,662,122 | 1,434,017 |
| Accumulated depreciation | (1,181,833) | (860,953) |
| Net carrying amount | 480,289 | 573,064 |

| | Opening balance<br>$ | Additions<br>$ | Disposals<br>$ | Foreign exchange movements<br>$ | Depreciation (i)<br>$ | Closing balance<br>$ |
|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | |
| Survey equipment | - | 31,762 | - | - | (12,801) | 18,961 |
| Furniture and fixtures | 24,924 | 40,202 | - | (3,150) | (5,755) | 56,221 |
| Motor vehicles | 12,259 | 12,339 | - | (957) | (3,360) | 20,281 |
| Office equipment | 12,353 | 4,483 | - | (1,492) | (2,811) | 12,533 |
| IT equipment | 101,471 | 17,398 | (5,556) | (14,227) | (53,375) | 46,711 |
| Leasehold improvements | 35,644 | 14,195 | - | (4,629) | (28,925) | 16,285 |
| Drone accessories | 67,203 | 126,060 | (4,802) | (11,312) | (68,990) | 108,159 |
| Small assets | - | 6,163 | - | - | (6,163) | - |
| Drones | 318,647 | 108,319 | (1,925) | (39,605) | (201,604) | 183,831 |
| Other fixed assets | 563 | - | - | (73) | (203) | 287 |
| Capital works in progress | - | 17,019 | - | - | - | 17,019 |
| | 573,064 | 377,940 | (12,283) | (75,445) | (382,987) | 480,289 |

(i) A total of depreciation expense of $382,987 has been allocated between costs of sale ($257,835) and depreciation expense ($125,152) in the statement of profit or loss and other comprehensive income.

| | Opening balance<br>$ | Additions<br>$ | Disposals<br>$ | Foreign exchange movements<br>$ | Depreciation<br>$ | Closing balance<br>$ |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| Survey Equipment | 298 | - | - | 3 | (301) | - |
| Furniture and fixtures | 19,225 | 9,770 | - | 257 | (4,328) | 24,924 |
| Motor vehicles | - | 13,844 | - | 108 | (1,693) | 12,259 |
| Office equipment | 10,361 | 4,192 | - | 45 | (2,245) | 12,353 |
| IT equipment | 132,072 | 59,909 | (11,254) | 845 | (80,101) | 101,471 |
| Leasehold improvements | 60,288 | 7,429 | - | 1,214 | (33,287) | 35,644 |
| Drone accessories | 79,378 | 66,464 | (559) | 83 | (77,997) | 67,203 |
| Small assets | - | 4,945 | - | 55 | (4,890) | - |
| Drones | 357,840 | 151,823 | (9,124) | 7,084 | (188,976) | 318,647 |
| Other fixed assets | 772 | - | - | 19 | (228) | 563 |
| | 680,234 | 318,376 | (20,937) | 9,437 | (394,046) | 573,064 |

(i) A total of depreciation expense of $394,046 has been allocated between costs of sale ($260,115) and depreciation expense ($133,931) in the statement of profit or loss and other comprehensive income.

| NOTE 15: GOODWILL | Opening balance<br>$ | Additions<br>$ | Impairment loss<br>$ | Foreign exchange movement<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| Goodwill – Rocketmine South Africa (Pty) Ltd | 655,298 | - | - | (85,168) | 570,130 |
| Goodwill – Rocketmine Limited | 12,292 | - | - | (1,598) | 10,694 |
| Goodwill – Delta Drone International Limited | - | 1,678,590 | - | - | 1,678,590 |
| | 667,590 | 1,678,590 | - | (86,766) | 2,259,414 |
| **31 December 2019** | | | | | |
| Goodwill – Rocketmine South Africa (Pty) Ltd | 635,289 | - | - | 20,009 | 655,298 |
| Goodwill – Rocketmine Limited | 11,916 | - | - | 376 | 12,292 |
| | 647,205 | - | - | 20,384 | 667,590 |

**Additional information**

The recoverable amount of all cash-generating units is based on the higher of its value-in-use or fair value less costs to sell which require use of assumptions. For the purpose of impairment testing, goodwill is allocated to two (2) cash-generating units (CGU), being Delta Drone South Africa and ParaZero Israel. In assessing goodwill impairment for the year ended 31 December 2020, both CGUs used a discounted cash flow model in accordance with the value-in-use (VIU) method, which reflect the present value of the future cash flows expenditure to be derived from each CGUs. The significant inputs and key assumptions used by management within the discounted cash flow model for both CGUs are:

Delta Drone South Africa (Pty) Ltd:

- Discount rate (pre-tax): risk in the industry and country in which it operates – 16.3%.
- Revenue growth: relevant to the market conditions and business plan – 31.4%.
- Budgeted gross profit rate: based on past performance and management's expectations for the future – 54.7%.
- Long term growth rate: typically consistent with the long-term growth rate of the economic environment or country in which it operates.

ParaZero Israel

- The cash flows for future financial years of the model are based on the 2021 budget as prepared by management.
- Short term growth rate of 25%.
- Operating profit ratio to revenue of 35%.
- Cost of capital for the valuation of intangible assets of 20%.
- Applicable tax rate of 16%.

The directors and management have engaged a third-party appraiser who performed a sensitivity analysis of the discount rate applied and as a result of the analysis performed have determined that no impairment charge is to be recognised for the year ended 31 December 2020.

**NOTE 16: INTANGIBLES**

| | Cost | Accumulated amortisation | Carrying value |
|---|---|---|---|
| **31 December 2020** | **$** | **$** | **$** |
| Brand names | 30,990 | (23,759) | 7,231 |
| Licenses to operate | 123,960 | (95,036) | 28,924 |
| Client contracts and relationships | 199,700 | (199,700) | - |
| Domain, manuals and processes | 96,956 | (94,992) | 1,963 |
| USA licenses | 1,569,000 | (5,370) | 1,563,630 |
| Technology | 734,000 | (2,512) | 731,488 |
| Customer relationships | 2,376,000 | (6,506) | 2,369,494 |
| | 5,130,606 | (427,875) | 4,702,730 |
| | | | |
| **31 December 2019** | | | |
| Brand names | 35,620 | (20,185) | 15,435 |
| Licenses to operate | 142,478 | (80,737) | 61,741 |
| Client contracts and relationships | 229,532 | (229,532) | - |
| Domain, manuals and processes | 111,438 | (101,595) | 9,843 |
| | 519,068 | (432,049) | 87,019 |

| Reconciliation of intangible assets | Opening balance | Additions through Business Combination | Foreign exchange movement | Amortisation | Total |
|---|---|---|---|---|---|
| **31 December 2020** | **$** | **$** | **$** | **$** | **$** |
| Brand names | 15,435 | - | (2,005) | (6,199) | 7,231 |
| Licenses to operate | 61,741 | - | (8,022) | (24,795) | 28,924 |
| Client contracts and relationships | - | - | - | - | - |
| Domain, manuals and processes | 9,843 | - | (1,278) | (6,602) | 1,963 |
| USA licenses | - | 1,569,000 | - | (5,370) | 1,563,630 |
| Technology | - | 734,000 | - | (2,512) | 731,488 |
| Customer relationships | - | 2,376,000 | - | (6,506) | 2,369,494 |
| | 87,019 | 4,679,000 | (11,305) | (51,984) | 4,702,730 |
| | | | | | |
| **31 December 2019** | | | | | |
| Brand names | 21,870 | - | 545 | (6,980) | 15,435 |
| Licenses to operate | 87,481 | - | 2,181 | (27,921) | 61,741 |
| Client contracts and relationships | 18,544 | - | 198 | (18,742) | - |
| Domain, manuals and processes | 44,305 | - | 672 | (35,134) | 9,843 |
| | 172,200 | | 3,596 | (88,777) | 87,019 |

| NOTE 17: RIGHT-OF-USE ASSETS | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **BUILDINGS – RIGHT-OF-USE** | | |
| Cost – opening balance | 308,576 | 267,427 |
| Net additions | 92,882 | 41,149 |
| Foreign exchange movement | (32,778) | - |
| **Acquisition costs at 31 December** | **368,680** | **308,576** |
| Accumulated depreciation – opening balance | (106,113) | (55,504) |
| Depreciation for the year | (91,737) | (56,129) |
| Foreign exchange movement | 6,474 | 5,519 |
| **Accumulated depreciation as of 31 December** | **191,376** | **106,114** |
| **Net book value as of 31 December** | **177,304** | **202,462** |

| | | |
|---|---|---|
| **Amounts recognised in the Statement of Profit and Loss** | | |
| Depreciation expense on right-of-use assets | 91,737 | 56,129 |
| Interest expense on lease liabilities | 15,058 | 15,647 |
| **Total recognised in the Statement of Profit and Loss** | 106,795 | 71,776 |

| | | |
|---|---|---|
| **Amounts recognised in the Statement of Cash Flows** | | |
| Payments of principal portion of lease liabilities | (88,326) | (48,906) |
| Payments of interest portion of lease liabilities | (15,058) | (15,647) |
| **Total cash outflow for leases** | (103,384) | (64,553) |

| | | |
|---|---|---|
| **Changes in lease liabilities reported in financing activities** | | |
| Opening balance | 226,740 | 228,313 |
| Total cash flows | (103,384) | (64,553) |
| Non-cash changes | | |
| Foreign exchange movement | (29,459) | 6,184 |
| - Net additions | 92,882 | 41,149 |
| - Interest expense | 15,058 | 15,647 |
| | 201,837 | 226,740 |

| NOTE 18: TRADE AND OTHER PAYABLES | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **CURRENT** | | |
| Trade payables | 221,605 | 36,989 |
| VAT | 38,296 | 33,116 |
| Accrued expenses | 619,127 | 13,825 |
| Other payables | 43,572 | 32,547 |
| | 922,600 | 116,477 |

The carrying values of trade payables and other payables are considered to approximate fair value. The Group's exposure to the risks associated with trade and other payables are disclosed in Note 26.

| **NOTE 19: BORROWINGS** | **2020** | **2019** |
|---|---|---|
| | **$** | **$** |
| **CURRENT** | | |
| Short-term loans (i) | 506,839 | 3,354,742 |
| | 506,839 | 3,354,742 |

(i) The 2020 figure represents a short-term bridge financing by way of an unsecured line of credit ("loan") of $500,000 advanced by Delta Drone SA France with an interest rate of 10% per annum. The loan and the accrued interest were repaid subsequent to the year end. The 2019 figure includes a loan from Delta Drone SA (France) which was assigned to Delta Drone International Limited as part of the Acquisition. There are no changes to the terms and conditions of the assigned loan. Refer to note 4 for more information.

The Group's exposure to the risks associated with borrowings are disclosed in Note 26.

| **NOTE 20: OTHER FINANCIAL LIABILITIES** | **2020** | **2019** |
|---|---|---|
| | **$** | **$** |
| **CURRENT** | | |
| Liability for Israel Innovation Authority Grants | 39,969 | - |
| | | |
| **NON-CURRENT** | | |
| Liability for Israel Innovation Authority Grants | 364,201 | - |

ParaZero Technologies ("ParaZero Israel") (the Group's subsidiary) received funding from the Israeli Innovation Authority (IIA) for its participation in research and development costs, based on budgets approved by the IIA, subject to the fulfillment of specified milestones. ParaZero Israel is committed to pay royalties to the IIA on proceeds from sale of products in the research and development of which the IIA participates by way of grants. According to the funding terms, royalties of 3%-3.5% are payable on sales of developed products funded, up to 100% of the grant received by ParaZero Israel, linked to the US dollar and bearing libor interest rate. In the case of failure of a financed project, ParaZero Israel is not obligated to pay any such royalties to the IIA.

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**NOTE 21: ISSUED CAPITAL**

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **(a) Share Capital** | | |
| 500,800,731 (2019: 200) fully paid ordinary shares | 12,904,061 | 1,159,854 |

| **(b) Movement in ordinary capital** | **No. of shares** | **Total $** |
|---|---|---|
| **Opening balance as at 31 December 2019** | **200** | **1,159,854** |
| Movements during the year | 100 | 575,530 |
| Elimination of Delta Drone South Africa shares on Acquisition of DLT | (300) | - |
| Existing shares in DLT | 139,082,099 | - |
| Conversion of convertible notes | 12,500,000 | 500,000 |
| Conversion of convertible notes | 14,705,882 | 500,000 |
| Issue of shares to acquire Delta Drone South Africa | 203,512,750 | 5,563,284 |
| Issue of shares pursuant to Prospectus | 125,000,000 | 5,000,000 |
| Issue of Broker Shares | 6,000,000 | 240,000 |
| Capital raising costs | - | (634,607) |
| **Closing balance as at 31 December 2020** | **500,800,731** | **12,904,061** |

**(c) Capital Management**

Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet research and development programs and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

**NOTE 22: RESERVES**

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Share-based payment reserve (i) | - | - |
| Foreign currency translation reserve (ii) | 419,845 | (35,357) |
| Predecessor accounting reserve (iii) | (968,570) | (968,570) |
| | (548,725) | 1,003,927 |

**(i) Share-based payment reserve**

| **Movements in share-based payment reserve** | **31 Dec 2020** | |
|---|---|---|
| | **No.** | **$** |
| Opening balance at 1 January 2020 | - | - |
| Existing options in DLT | 54,253,507 | 1,988,085 |
| Elimination of share-based payment reserve on Acquisition | - | (1,988,085) |
| Cancellation of Performance Options (i) | (39,226,811) | - |
| Closing balance at 31 December 2020 | 15,026,696 | - |

(i) On 25 September 2020, the Company cancelled a total of 39,226,811 Performance Options (16,085,363 Class A, 11,370,724 Class B and 11,770,724 Class C Performance Options).

**(ii) Foreign currency translation reserve**

The foreign currency translation reserve records exchange differences arising on translation from functional currency to presentation currency.

**(iii) Predecessor accounting reserve**

The predecessor accounting reserve comprises the excess of purchase price over the fair value of net assets when the common controlled entity, Drone Safety and Legal (Pty) Ltd was acquired by Delta Drone SA France.

**NOTE 23: ACCUMULATED LOSSES**

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Accumulated losses at the beginning of the financial year | (779,513) | (907,802) |
| (Loss)/profit for the year | (183,959) | 128,289 |
| Accumulated losses at the end of the financial year | (963,472) | (779,513) |

**NOTE 24: SHARE BASED PAYMENTS**

During the year ended 31 December 2020, the Company recorded the following share-based payments, for which $nil value was ascribed to as part of the Acquisition accounting:

- The issue of 45,000,000 Performance Shares which will convert to new shares according to the following milestones:
  - **Class A** – 20,000,000 Class A Performance Shares with each Class A Performance Share entitling Delta Drone SA France to subscribe for one fully paid ordinary share in the capital of the Company if Delta Drone South Africa achieves consolidated revenue (for avoidance of doubt, only Delta Drone South Africa and excluding the Company) for any full financial year (being 1 January to 31 December) during the three-year term of the Class A Performance Share of not less than US$3.2 million ("First Performance Milestone");
  - **Class B** – 15,000,000 Class B Performance Shares with each class B Performance Share entitling Delta Drone SA France to subscribe for one fully paid ordinary share in the capital of the Company if Delta Drone South Africa enters into at least two binding contracts with Australian based mining companies (being companies that conduct mining, exploration or extraction activities) for the provision of drone survey or mapping solution services to those mining companies in Australia ("Services") and Delta Drone South Africa receives not less than US$1,000,000 (based on audited accounts) of verified revenue in aggregate form from such executed contracts received within the three-year term of the Performance Shares for its Services ("Second Performance Milestone"); and
  - **Class C** – 10,000,000 Class C Performance Shares with each Class C Performance Share entitling Delta Drone SA France to subscribe for one fully paid ordinary share in the capital of the Company if during the three-year term of the Class C Performance Shares the Company announces to the ASX that Delta Drone South Africa has expanded the services of its business offering (being the provision of drone survey and mapping solutions) into a new geographic location outside of Australia, Israel South Africa, Ghana and Namibia and achieved a revenue in that geographic location of not less than US$1,000,000 ("Third Performance Milestone").

  If a Performance Milestone is not satisfied within 3 years of the date of issue of the Performance Shares (being 22 December 2020), then the relevant Performance Shares will automatically lapse.

**NOTE 25: OPERATING SEGMENTS**

**Segment Information**

**Identification of reportable segments**

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the board of directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources. As at 31 December 2020, the Group's sole operating segment is consistent with the presentation of these consolidated financial statements.

**NOTE 26: FINANCIAL INSTRUMENTS**

**(a) Capital management**

The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid, return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the nature of the business, the Group monitors capital on the basis of current business operations and cash flow requirements. There were no changes in the Group's approach to capital management during the year.

**(b) Categories of financial instruments**

| Financial assets | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Cash and cash equivalents | 5,182,923 | 784,603 |
| Trade and other receivables | 964,746 | 675,664 |
| Deposits | 35,531 | 17,968 |
| | 6,183,200 | 1,478,235 |
| **Financial liabilities** | | |
| Trade and other payables | 922,600 | 116,477 |
| Bank overdraft | 80,683 | - |
| Lease liabilities | 201,836 | 226,740 |
| Borrowings | 506,839 | 3,354,742 |
| Other financial liability | 404,170 | - |
| | 2,116,128 | 3,697,959 |

The fair value of the above financial instruments approximates their carrying values.

**(c) Financial risk management policies**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of those risks is presented throughout these financial statements.

**NOTE 26: FINANCIAL INSTRUMENTS (cont'd)**

The board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of those risks on the Group where such impacts may be material. The board receives monthly financial reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

**(d) Market risk**

Market risk for the Group arises from the use of interest-bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rate (see (e) below).

**(e) Interest rate risk management**

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at reporting date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Movement in Profit $ | Movement in Equity $ |
|---|---|---|
| **Year ended 31 December 2020** | | |
| +/-1% in interest rates | 51,829 | 51,829 |
| **Year ended 31 December 2019** | | |
| +/-1% in interest rates | 785 | 785 |

**(f) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Trade receivables comprise a concentrated customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Credit guarantee insurance is purchased when deemed appropriate.

**(g) Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

**NOTE 26: FINANCIAL INSTRUMENTS (cont'd)**

The following are the contractual maturities of financial liabilities based on the actual rates at the reporting date excluding interest payments:

| 2020 | Interest rate | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| Trade and other payables | - | 922,600 | - | - | - | - | 922,600 | 922,600 |
| Bank overdraft | 3% | 80,683 | - | - | - | - | 80,683 | 80,683 |
| Lease liabilities | - | 79,194 | - | 122,642 | - | - | 201,836 | 201,836 |
| Borrowings | 10% | 506,839 | - | - | - | - | 506,839 | 506,839 |
| | | 1,589,316 | - | 122,642 | - | - | 1,711,958 | 1,711,958 |

Note: Other financial liability of $404,170 has not been included in the above table as timing of repayment is uncertain.

| 2019 | Interest rate | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| Trade and other payables | - | 116,477 | - | - | - | - | 116,477 | 116,477 |
| Lease liabilities | - | 87,106 | - | 139,634 | - | - | 226,740 | 226,740 |
| Borrowings | 2.5% | - | 3,354,742 | - | - | - | 3,354,742 | 3,354,742 |
| | | 203,583 | 3,354,742 | 139,634 | - | - | 3,697,959 | 3,697,959 |

**(h) Net fair value of financial assets and liabilities**

***Fair value estimation***

Due to the short-term nature of the receivables and payables the carrying value approximates fair value.

**(i) Foreign currency risk**

The currency risk is the risk that the value of financial instruments will fluctuate due to change in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar (the functional currency of the Israeli subsidiary company), the New Israeli Shekel, the Australian Dollar (functional currency of the Parent company) and the South African Rand (the functional currency of the South African subsidiaries).

**NOTE 27: PARENT ENTITY FINANCIAL INFORMATION**

The following information of the legal parent Delta Drone has been prepared in accordance with Australian Accounting Standards and the accounting policies as outlined in Note 3.

**(a) Financial Position of Delta Drone International Limited**

| | 2020 $ | 2019 $ |
|---|---|---|
| **ASSETS** | | |
| Current assets | 4,340,808 | 2,139,252 |
| Non-current assets | - | 1,769,731 |
| **TOTAL ASSETS** | **4,340,808** | **3,908,983** |
| | | |
| **LIABILITIES** | | |
| Current liabilities | 726,869 | 2,592,822 |
| Non-current liabilities | - | 125,229 |
| **TOTAL LIABILITIES** | **726,869** | **2,718,051** |
| **NET ASSETS** | **3,613,939** | **1,190,932** |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| Issued capital | 19,115,043 | 1,184,883 |
| Reserves | 1,922,683 | - |
| Accumulated losses | (17,423,787) | 6,049 |
| **SHAREHOLDERS' EQUITY** | **3,613,939** | **1,190,932** |

**(b) Statement of profit or loss and other comprehensive income**

| | | |
|---|---|---|
| (Loss)/profit for the year | (17,429,836) | 67,587 |
| Total comprehensive loss | (17,429,836) | 67,587 |

**(c) Guarantees entered into by Delta Drone for the debts of its subsidiary**

There are no guarantees entered into by Delta Drone.

**(d) Contingent liabilities of Delta Drone**

There were no contingent liabilities as at 31 December 2020 (2019: nil).

**(e) Commitments by Delta Drone**

There were no commitments as at 31 December 2020 (2019: nil).

**NOTE 28: CONTINGENT LIABILITIES**

The Group has no known contingent liabilities as at 31 December 2020 (2019: nil)

**NOTE 29: DIVIDENDS PAID OR PROPOSED**

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

**NOTE 30: CONTROLLED ENTITIES**

The ultimate legal parent entity of the Group is Delta Drone International Limited, incorporated and domiciled in Australia. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 3.

| Controlled entities | Country of Incorporation | Percentage Owned 2020 | 2019[(i)] |
|---|---|---|---|
| ParaZero Technologies | Israel | 100% | 100% |
| Delta Drone South Africa (Pty) Ltd (ii) | South Africa | 100% | - |
| Rocketmine South Africa (ii) | South Africa | 74% | - |
| Rocketmine Ghana (ii) | Ghana | 90% | - |

(i) The comparative information for the year ended 31 December 2019 is that of Delta Drone South Africa (Pty) Ltd and its subsidiaries, Rockemine South Africa and Rocketmine Ghana. Refer to Note 2 and Note 4 for more information.

(ii) Refer to Note 4 for more information on the acquisition of these entities.

The proportion of ownership interest is equal to the proportion of voting power held.

**NOTE 31: EVENTS AFTER THE REPORTING PERIOD**

On 4 February 2021, the Company announced that it was to become the first organisation to provide specialised Remote Pilot License (RPL/RePL) drone courses in Africa in conjunction with the University of Pretoria. First student intake is scheduled in April 2021.

On 10 February 2021, 579,201 shares were issued as a result of the exercise of 579,201 unquoted options with an exercise price of $0.0027. The shares are held by a Trustee under a holding lock provision for 12 months following their issue.

On 15 February 2021, the Company announced it has expanded operations into Zambia to deliver a specialised agricultural project for leading multinational agriculture services company, Syngenta.

On 25 February 2021, the Company announced that it had signed a confidential security service contract with a multi-national mining organisation for air surveillance at one of its African locations. Whilst the client and location could not be disclosed for security reasons, the initial six-month contract (with option to renew) will generate $340,000 revenue to DLT’s subsidiary, Rocketmine, for providing unmanned aerial vehicle (UAV) surveillance services.

On 2 March 2021, the Company announced that it had signed its largest multinational OEM (original equipment manufacturer) integration deal with industrial equipment world-leader, Doosan Mobility Innovation. The multi-phase project to generate initial revenue in excess of $150,000 and will include R&D coordination, system architecture, design, ground deployment testing, system finalisation and ASTM F3322-18 (American Society for Testing and Materials) testing and certification.

On 10 March 2021, the Company issued 625,000 shares at a value of $0.031 per share to Pitt Street Research in lieu of a cash payment for providing research services. The shares are being held under a voluntary escrow arrangement until 9 March 2022 and the securities have had a holding lock placed on them to restrict them from trading.

The impact of the coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting period. The timing, extent of the impact and recovery from COVID-19 on our employees, customers and suppliers is unknown at this stage. The full impact of COVID-19 outbreak continues to evolve as at the date of this report. As such, the Group is unable to estimate the effects of the COVID-19 outbreak on the Group’s financial position, liquidity and operations in the 2021 financial year.

There were no other material events after the reporting period other than the above.

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**NOTE 32: APPLICATION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS**

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2020.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
  This Standard amends AASB 3 *Business Combinations*. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
  This Standard amends AASB 101 *Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*, and makes consequential amendments to several other pronouncements and publications.

- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
  The amendments include consequential amendments to affected Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB.

- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*
  The amendments in AASB 2019-3 modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*
  This Standard makes amendments to AASB 1054 *Additional Australian Disclosures* by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose information specified in paragraphs 30 and 31 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* on the potential effect of an IFRS Standard that has not yet been issued by the AASB.

***New and revised Australian Accounting Standards and Interpretations issued but not yet effective***

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

| **Standard/amendment** | **Effective for annual reporting periods beginning on or after** |
|---|---|
| AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts* | 1 January 2023 |
| AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform Phase 2* | 1 January 2021 |
| AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments* | 1 January 2022 |

## DIRECTORS' DECLARATION

In the Directors' opinion:

1. The consolidated financial statements and notes set out on pages 18 to 53 are in accordance with the *Corporations Act 2001*, including:

   a) complying with *Australian Accounting Standards, Corporations Regulations 2001* and other mandatory professional reporting requirements, noting the matters documented in Note 1 (a);

   b) giving a true and fair view, the Group's financial position as at 31 December 2020 and of its performance for the year ended on that date; and

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

3. This declaration has been made after receiving the declaration required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2020.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

**Christopher Clark**
***Chief Executive Officer***
Perth, 31 March 2021

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

**INDEPENDENT AUDITOR'S REPORT**

To the members of Delta Drone International Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Delta Drone International Limited(the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

### Accounting for Reverse Acquisition

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| As disclosed in Note 4 of the financial report, on 22 December 2020, Delta Drone International Limited (formerly ParaZero Limited) completed the acquisition of Delta Drone South Africa (Pty) Ltd ('DDSA').<br><br>The accounting of this acquisition is a key audit matter due to the accounting complexity of the arrangement which is accounted for as DDSA (the accounting parent) issuing a share-based payment in return for the net assets acquired in the Company.<br><br>Furthermore, judgement is involved in the determination of the value of the purchase consideration settled by way of a share-based payment.<br><br>Refer to Note 2, Note 4 and Note 21 of the financial report for a description of the accounting policy and judgements applied to this transaction. | Our procedures included but were not limited to:<br><br>• Obtaining an understanding of the transaction including an assessment of the accounting acquirer and whether the transaction constituted a business or asset acquisition;<br><br>• Assessing management's proposed accounting treatment in accordance with applicable accounting standards;<br><br>• Evaluating the basis of the valuation of the share-based payment (or fair value of consideration);<br><br>• Checking the calculation of the share-based payment, fair value of identifiable net assets acquired, including any separately identifiable intangible assets;<br><br>• Considering whether any fair values or adjustments to fair values have been dealt with in accordance with generally accepted accounting principles;<br><br>• Assessing the adequacy of the related disclosures in Note 2, Note 4 and Note 21 to the financial report. |

## Recoverability of cash generating units ("CGUs")

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| Note 15 and Note 16 of the financial report discloses the individual intangible assets and the assumptions used by the Group in testing these assets for impairment.<br><br>As required by Australian Accounting Standards, the Group performs an annual impairment test for each CGU to which goodwill and other intangible assets have been allocated to determine whether the recoverable amount is below the carrying amount.<br><br>This was determined to be a key audit matter because of the significant judgement involved in determining the recoverable amount of the relevant CGU. | Our procedures included, but were not limited to:<br><br>• Holding discussions with management regarding the impairment testing methodology applied;<br><br>• Assessing the appropriateness of the Group's categorisation of Cash Generating Units ('CGUs') and the allocation of assets to the carrying value of CGUs based on our understanding of the Group's business and the Group's internal reporting;<br><br>• Challenging key inputs used in managements impairment assessment;<br><br>• Assessing the fair value less costs of disposal of each CGU in conjunction with our valuation specialists; and<br><br>• Assessing the adequacy of the related disclosures in Note 15 and Note 16 to the financial report. |

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 15 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Delta Drone International Limited, for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

BDO

**Dean Just**

**Director**

Perth, 31 March 2021

## ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 11 March 2021.

As at 11 March 2021, there were 753 holders of fully paid ordinary shares.

### VOTING RIGHTS

The voting rights of the ordinary shares are as follows:

Subject to any rights or restrictions for the time being attached to any shares or class of shares of the Company, each member of the Company is entitled to receive notice of, attend and vote at a general meeting. Resolutions of members will be decided by a show of hands unless a poll is demanded. On a show of hands each eligible voter present has one vote. However, where a person present at a general meeting represents personally or by proxy, attorney or representation more than one member, on a show of hands the person is entitled to one vote only despite the number of members the person represents.

On a poll each eligible member has one vote for each fully paid share held.

There are no voting rights attached to any of the options and performance options that the Company currently has on issue. Upon exercise of these options, the shares issued will have the same voting rights as existing ordinary shares.

### TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of Ordinary Fully Paid Shares are:

| Holder Name | Holding | % IC |
|---|---:|---:|
| DELTA DRONE SA | 252,458,636 | 50.29% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 50,931,666 | 10.15% |
| THE TRUST COMPANY (AUSTRALIA) LIMITED <MOF A/C> | 27,275,691 | 5.43% |
| 010 YAZAMUT LTD | 23,959,727 | 4.77% |
| MEAH PLUS MAARCHOT BETICHOT LE'RACHFANIM LP | 18,112,983 | 3.61% |
| DELTA DRONE | 12,500,000 | 2.49% |
| RAN KRAUS | 10,493,383 | 2.09% |
| CUKIERMAN & CO INVESTMENT HOUSE LTD | 6,000,000 | 1.20% |
| ADFECT APS | 5,107,395 | 1.02% |
| AMIR TSALIAH | 3,523,386 | 0.70% |
| RONALD ZELAZO <REVOCABLE A/C> | 3,238,622 | 0.65% |
| CARJAY INVESTMENTS PTY LTD | 2,500,000 | 0.50% |
| RONALD ZELAZO | 2,433,333 | 0.48% |
| CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C> | 2,125,000 | 0.42% |
| MRS KATHRYN VALERIE VAN DER ZWAN <HARLESTON FAMILY A/C> | 1,750,000 | 0.35% |
| JOJO ENTERPRISES PTY LTD <SFI FAMILY A/C> | 1,750,000 | 0.35% |
| JETMAX TRADING PTY LTD | 1,681,250 | 0.33% |
| MR LINDSAY GORDON WOOD <WOOD INVESTMENT A/C> | 1,500,000 | 0.30% |
| AUTO MANAGEMENT PTY LTD <THE BRANCHI FAMILY A/C> | 1,500,000 | 0.30% |
| IBI TRUST MANAGEMENT <EMPLOYEE OPTION A/C> | 1,423,301 | 0.28% |
| **Totals** | **430,264,373** | **85.71%** |

### SUBSTANTIAL HOLDERS

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 11 March 2021 are:

| Name | No of Shares Held | % of Issued Capital |
|---|---|---|
| Delta Drone SA | 252,458,636 | 50.41% |
| YAII PN Ltd | 50,000,000 | 9.98% |

### DISTRIBUTION OF EQUITY SECURITIES

**Ordinary Fully Paid Shares**

| Holding Ranges | Holders | Total Units | % of Issued Capital |
|---|---|---|---|
| 1 - 1,000 | 7 | 3,013 | 0.00% |
| 1,001 - 5,000 | 15 | 54,076 | 0.01% |
| 5,001 - 10,000 | 78 | 754,998 | 0.15% |
| 10,001 - 100,000 | 444 | 21,612,654 | 4.31% |
| 100,001 - 9,999,999,999 | 209 | 479,580,191 | 95.53% |
| **Totals** | **753** | **502,004,932** | **100.00%** |

Unmarketable Parcels – 159 Holders with a total of 1,614,435 shares, based on the last trading price of $0.031 on 11 March 2021.

### RESTRICTED SECURITIES

As at 11 March 2021, the following securities are subject to escrow:

| | |
|---|---|
| 211,718,632 | Ordinary Fully Paid Shares escrowed until 31 December 2022 |
| 20,000,000 | Class A Performance Shares escrowed until 31 December 2022 |
| 15,000,000 | Class B Performance Shares escrowed until 31 December 2022 |
| 10,000,000 | Class C Performance Shares escrowed until 31 December 2022 |

Note:

The milestones applicable to the Performance Shares are detailed on page 47 of this Annual Report.

**UNQUOTED SECURITIES**

As at 11 March 2021, the following unquoted securities are on issue:

**7,590,418 Options Expiring 13 June 2023 @ $0.0027 – 3 Holders**
Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| EATC International Ltd | 5,598,837 | 73.76% |

**4,000,000 Options Expiring 13 June 2021 @ $0.30 – 17 Holders**
There are no holders with more than 20%

**20,000,000 Class A Performance Shares escrowed until 31 December 2022 – 1 Holder**
Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| Delta Drone SA | 20,000,000 | 100.00% |

The milestones applicable to the Performance Shares are detailed on page 47 of this Annual Report.

**15,000,000 Class B Performance Shares escrowed until 31 December 2022 – 1 Holder**
Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| Delta Drone SA | 15,000,000 | 100.00% |

The milestones applicable to the Performance Shares are detailed on page 47 of this Annual Report.

**10,000,000 Class C Performance Shares escrowed until 31 December 2022 – 1 Holder**
Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| Delta Drone SA | 10,000,000 | 100.00% |

The milestones applicable to the Performance Shares are detailed on page 47 of this Annual Report.

**955,480 Options Expiring 17 April 2024 @ $0.1125 – 14 Holders**
Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| Capricorn Investment Partners (Nominees) Pty Ltd <Merchant Leaders Fund A/C> | 618,430 | 64.72% |

**953,544 Options Expiring 24 June 2024 @ $0.1125 – 5 Holders**
Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| Meah Plus Maarchot Betichot Le’Rachfanim LP | 823,673 | 86.38% |

**948,053 Options Expiring 5 November 2024 @ $0.09 – 5 Holders**

Holders with more than 20%

| Holder Name | Holding | % IC |
|---|---|---|
| 010 Yazamut Ltd | 270,872 | 28.57% |
| Adfect APS | 225,727 | 23.81% |
| Ronald Zelazo | 225,727 | 23.81% |
| Capricorn Investment Partners (Nominees) Pty Ltd <Merchant Leaders Fund A/C> | 222,745 | 23.50% |

**ON-MARKET BUY BACK**

There is currently no on-market buyback program.

**ASX LISTING RULE 4.10.19**

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing of the Company's securities to quotation in a way consistent with its business objectives.