

ASX ANNOUNCEMENT

DRAGONTAIL SYSTEMS CONTINUES TO ADVANCE ITS GLOBAL GROWTH INITIATIVES

30 April 2018 (Melbourne): Dragontail Systems Limited (ASX: DTS) is pleased to provide the market with its quarterly operational update for the three months ended 31 March 2018 (Q1 2018).

Key Q1 2018 highlights:

- Customer receipts up 304% to A\$218k (Q1 2017: \$54k; up 12% on Q4 2017)
- Appointment of Mark Bayliss as Executive Chairman strengthened the leadership team
- Key hires made in Australia and in Israel to support the growing global interest in both the 'Algo' platform and QT camera system
- Mutual Referral Agreement signed with VisionMAX
- Further expansion of partnership with Oracle and the completion of full integration, leading to first combined MICROS and 'Algo' installation expected in the UK in May
- Cara Operations' integration in final phases expected rollout to begin next month
- Expanding relationship with Pizza Hut
 - Full country rollout across Singapore (including driver sharing 'Algo' module), marks the first step in Dragontail's Asia growth strategy
 - First stores to go live in the UK as part of initial in-country test
- Expanding relationship with Domino's Pizza Enterprises
 - Progressing "Pizza Checker" camera rollout
- Expanding relationship with KFC
 - Singapore pilot delivering the food preparation and optimisation benefits expected, leading to Pizza Hut Singapore rollout by the same franchisee (who is also the franchise of KFC Malaysia and Pizza Hut Malaysia)
 - Only delivery optimisation technology company invited to present at KFC's global franchisee conference to be held in Orlando in May.

Commenting on the Company's continued progress over Q1 2018, Managing Director Ido Levanon said: "It has been a busy start to the year for Dragontail. We continue to work closely with our strategic global customers and expand our relationships with some of the leading global Quick Service Restaurant [QSR] brands including Pizza Hut, KFC, and Domino's Pizza Enterprises, and Cara Operations. Our focus over the past three months has been to deliver on the agreements we have in place and expand our relationships with these leading global QSR brands. We are well placed to build on the operational momentum generated over the past three months and drive strong business growth over the year ahead."

Continued growth in key metrics

Dragontail Systems continued to deliver to plan. With a focus on executing current contracts and building the Company's new business pipeline, the total number of contracted stores remained 1,030 over the quarter for the 'Algo' and increased by 100 to 800 stores for the QT Camera system.

Since the end of the quarter, with the signing of Pizza Hut Singapore, contracted 'Algo' stores now sits at 1,068 (31 March 2018: 1,030).

Reflecting the growing number of installed stores, customer receipts were up 304% to A\$218k (Q1 2107: A\$54k; up 12% on Q4 2017), as the company progressed its agreements with leading global QSR operators – Pizza Hut, KFC, Cara Operations (TSX: CARA) and Domino's Pizza Enterprises (ASX: DMP).

| Operating metric | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 |
|--|----------------|----------------|----------------|------------------|-----------------|
| Number of contracted stores – Algo | 425 | 490 | 1,030 | 1,030 | 1,030* |
| Number of contracted stores – QT camera | - | - | - | 700 | 800 |
| Customer receipts in A\$ (% increase vs previous qtr) | \$54k (12%) | \$67k (24%) | \$96k (43%) | \$197k (105%) | \$218k (12%) |

* 1,068 at the date of this announcement

Appointment of Mark Bayliss as Executive Chairman strengthens Dragontail's leadership team

On 7 March, Mark Bayliss was appointed Executive Chairman. In this role, Mark will support Dragontail on the implementation of its strategy as it enters the next exciting growth phase, developing major global initiatives and partnership in the QSR and foodservice industry.

Mark brings extensive global experience to the Company, having served in leadership roles across technology, QSR, eCommerce, FMCG, retail, and several other industries. Mark has an outstanding record of accelerating growth and creating significant shareholder value.

Key hires made to further strengthen Dragontail's team and skillset

Fourteen new team members were hired during Q1 2018 to further strengthen Dragontail's team and skillset. Key hires were made on the technology side of the business with a new Chief Technology Officer appointed in Australia (Melbourne) and several experienced data scientists, developers and QAs were hired in Australia (Melbourne and Brisbane) and Israel, as the Company further enhanced its technology skill-set to support the growing projects given strong interest in both the 'Algo' platform and QT camera system.

Mutual referral agreement signed with VisionMAX in North America

To further strengthen Dragontail's channel strategy, a Mutual Referral Agreement was signed with VisionMAX, a leading digital ordering platform in North America. The agreement is expected to expand the customer base of both companies and create new business opportunities by providing access to new customers. Importantly this initiative offers an integrated solution using both company's leading technology platforms.

Further expansion of partnership with Oracle, leading to first combined MICROS and 'Algo' installation expected in the UK in May

The integration of Oracle's MICROS Point-Of-Sale (POS) platform with Dragontail's 'Algo' platform has been completed. The integrated platforms will go live with the first installation expected to occur in the UK in May.

Expanding relationship with Pizza Hut – full country rollout in Singapore marks the next step of Dragontail’s Asia growth strategy

Pizza Hut Singapore recently signed an agreement to rollout the ‘Algo’ platform to all its 38 stores nationwide by the end of June 2018. The ‘Algo’ platform will also include Dragontail’s unique driver sharing module, that allows stores to share delivery drivers to further improve customer service and lower operating costs.

This agreement represents the first full country deployment of the ‘Algo’ platform without an initial trial period. It is also the next step of Dragontail’s growth strategy in Asia, following the positive results being achieved in testing with KFC Singapore (see below).

Expanding relationship with Pizza Hut – trial in UK goes live

Pizza Hut UK is the latest region of the global Pizza Hut operation to engage Dragontail’s ‘Algo’ platform. The 3-month trial will go live in five stores, and if successful has the potential to be rolled out to 450 stores across the UK.

Expanding relationship with Domino’s Pizza Enterprises – progressing “Pizza Checker” camera rollout

Domino's Pizza Enterprises’ Australia-wide roll out of the “Pizza Checker”, Dragontail’s artificial intelligence [AI] QT quality control camera, is progressing. The goal of the rollout is to have the “Pizza Checker” installed in all Domino’s stores in Australia by the end of 2018.

Expanding relationship with KFC – Singapore pilot delivering the food preparation and optimisation benefits expected

Use of the ‘Algo’ platform in the KFC Singapore pilot stores has delivered measurable gains to those stores, with a 60% reduction in customer complaints and an increase in overall customer satisfaction regarding the taste of food, speed of service, and overall satisfaction. The success of this trial led to the agreement to rollout across all Pizza Hut Singapore stores given the same franchise owns both KFC and Pizza Hut Singapore stores, as well as both in Malaysia.

Expanding relationship with KFC – Dragontail is the only delivery optimisation technology company invited to present at KFC’s global franchisee conference to be held in Orlando in May

Evidencing the ever-strengthening relationship with KFC globally, Dragontail has been invited to present at KFC’s global franchisee conference in Orlando in May. Dragontail is the only delivery optimisation technology company invited to this conference. This follows Dragontail’s attendance and presentation at KFC Asia’s regional “store of tomorrow” convention in January.

Q1 2018 cash flow report

The Appendix 4C quarterly cashflow report for the three months ended 30 March 2018 is attached.

Total cash usage (Net Cash Used from Operating Activities) in Q1 2018 of US\$1.28 million was in line with internal expectations and the Q4 2017 Appendix 4C. Cash usage for the quarter reflected the investment Dragontail is making in further strengthening its team and expanding its relationships with leading global QSR companies Pizza Hut, KFC and Domino’s Pizza Enterprises.

Cash and Cash Equivalents were US\$4.86 million at the end of Q1 2018.

On track to deliver accelerated growth in 2018

Commenting on the outlook for Dragontail, Mr Levanon said: “With a strong backlog of stores to be installed across leading global QSR brands, the recent signing of a full-country rollout to Pizza Hut Singapore, and several new business opportunities in the pipeline, I am excited by the growth runway we see ahead for Dragontail. We are very focused on ensuring we deliver on the potential of our revolutionary optimisation and analytics software technology that is revolutionising the way foodservice businesses run back-of-house.”

Annual General Meeting

The Annual General Meeting of Shareholders is scheduled for Monday 21 May 2018 at 10:00am (AEST) in the offices of MinterEllison, Level 40, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000. For further details, refer to the separate 2018 Notice of Annual General Meeting.

- ENDS -

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About Dragontail Systems Limited

Dragontail is revolutionising the food service industry with its Algo System and computer-vision QT quality system that uses artificial intelligence [AI] machine learning.

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

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

For more information, visit www.dragontailsystems.com.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

Dragontail Systems Limited

ABN

614 800 136

Quarter ended ("current quarter")

31 March 2018

| Consolidated statement of cash flows | Current quarter \$USD'000 | Year to date (3 months) \$USD'000 |
|---|--------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 170 | 170 |
| 1.2 Payments for | | |
| (a) research and development | (514) | (514) |
| (b) product manufacturing and operating costs | (425) | (425) |
| (c) advertising and marketing | (148) | (148) |
| (d) leased assets | - | - |
| (e) staff costs | (143) | (143) |
| (f) administration and corporate costs | (220) | (220) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | - |
| 1.5 Interest and other costs of finance paid | (3) | (3) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (1,283) | (1,283) |

| | | |
|--|------|------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (40) | (40) |
| (b) businesses (see item 10) | - | - |
| (c) investments | - | - |

| Consolidated statement of cash flows | | Current quarter \$USD'000 | Year to date (3 months) \$USD'000 |
|--------------------------------------|---|------------------------------|---|
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) businesses (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other – cash acquired upon acquisition of subsidiaries. | - | - |
| 2.6 | Net cash from / (used in) investing activities | (40) | (40) |

| | | | |
|-------------|---|-------------|-------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | - | - |
| 3.2 | Proceeds from issue of convertible notes | - | - |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | (96) | (96) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Loan refund from a service provider | 6 | 6 |
| 3.10 | Net cash from / (used in) financing activities | (90) | (90) |

| | | | |
|-----------|--|---------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of quarter/year to date | 6,446 | 6,446 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,283) | (1,283) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (40) | (40) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (90) | (90) |

| Consolidated statement of cash flows | | Current quarter \$USD'000 | Year to date (3 months) \$USD'000 |
|--------------------------------------|--|------------------------------|---|
| 4.5 | Effect of movement in exchange rates on cash held | (170) | (170) |
| 4.6 | Cash and cash equivalents at end of quarter | 4,863 | 4,863 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$'000 | Previous quarter \$'000 |
|-----|--|---------------------------|----------------------------|
| 5.1 | Bank balances | 4,834 | 6,430 |
| 5.2 | Call deposits | 29 | 16 |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 4,863 | 6,446 |

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

Current quarter
\$USD'000

79

-

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

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

| 7. Payments to related entities of the entity and their associates | Current quarter \$'000 |
|--|---------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |
| - | |

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

| 9. Estimated cash outflows for next quarter | \$'000 |
|--|----------------|
| 9.1 Research and development | (294) |
| 9.2 Product manufacturing and operating costs | (450) |
| 9.3 Advertising and marketing | (294) |
| 9.4 Leased assets | - |
| 9.5 Staff costs | (95) |
| 9.6 Administration and corporate costs | (260) |
| 9.7 Other (provide details if material) | (80) |
| 9.8 Total estimated cash outflows | (1,473) |

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

Compliance statement

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

Sign here: 
.....
(Director)

Date: 30th April 2018

Print name: Ido Levanon

Notes

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