

## APPENDIX 4D

### Half-year Report for the period ending 30 June 2018

#### 1. Name of entity

<b>DRAGONTAIL SYSTEMS LIMITED AND ITS CONTROLLED ENTITIES</b>
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ABN	Reporting Period	Previous Corresponding Period
63 614 800 136	Half year ended 30 June 2018	Half year ended 30 June 2017

#### 2. Results for Announcement to the Market

Financial Results				30 June 2018
Revenues from ordinary activities ( <i>item 2.1</i> )	Up	259%	to	309,758
Loss from ordinary activities after tax attributable to members ( <i>item 2.2</i> )	Up	(143%)	to	(4,125,568)
Loss for the period attributable to members ( <i>item 2.3</i> )	Up	(143%)	to	(4,125,568)
Final and interim dividends ( <i>item 2.4</i> )	It is not proposed that either a final or interim dividend be paid .			
Record date for determining entitlements to the dividend ( <i>item 2.5</i> )	N/A			
Brief explanation of any of the figures reported above ( <i>item 2.6</i> ):	The Company has continued its expansion into new countries, signing agreements with new strategic customers like Domino's India and KFC Asia, establishing new collaborations. In addition it has expanded its staff in order to meet increasing demand.			

#### 3. NTA Backing

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share ( <i>Item 3</i> )	1.25 cents	1.31 cents

#### 4. Control gained over entities

Details of entities over which control has been gained or lost ( <i>item 4</i> )	N/A
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#### 5. Dividends paid and payable

Details of dividends or distribution payments ( <i>item 5</i> )	No dividends or distributions are payable.
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#### 6. Dividend reinvestment plans

Details of dividend or distribution reinvestment plans ( <i>item 6</i> )	There is no dividend reinvestment program in operation for Dragontail Systems Limited.
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**7. Details of associates**

Details of associates and joint venture entities ( <i>item 7</i> )	N/A
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**8. Foreign entities**

Foreign entities to disclose which accounting standards are used in compiling the report ( <i>item 8</i> )	N/A
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**9. Review Opinion**

Details of any audit dispute or qualification ( <i>item 9</i> )
There are no audit disputes or qualifications to the review conclusion.



**Dragontail Systems Limited & Controlled Entities**

**ACN 614 800 136**

**CONSOLIDATED INTERIM FINANCIAL REPORT  
for the half-year ended 30 June 2018**

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## Corporate information

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This consolidated interim financial report is for Dragontail Systems Limited and its controlled entities (“the Group”). Unless otherwise stated, all amounts are presented in US Dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 2 to 3. The directors' report is not part of the financial statements.

### Directors

*Dragontail Systems Australia*

Mr Yehuda Shamai

Mr Ido Levanon

Mr Ron Zuckerman

Mr Adam Sierakowski

Mr Stephen Hewitt-Dutton

### Company Secretary

Mr Stephen Hewitt-Dutton

### Registered Office

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### Website

[www.dragontailsystems.com](http://www.dragontailsystems.com)

### Auditors

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

### Share Registry & Register

Advanced Share Registry Limited  
110 Stirling Highway  
Nedlands WA 6009

### Stock Exchange Listing

Dragontail Systems Limited is listed on the  
Australian Securities Exchange

ASX Code: DTS

## Directors' report

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The directors of Dragontail Systems Limited ("the Company" or "DTS Australia") and its controlled entities ("the Group") submit herewith the financial statements of the Group for the half-year ended 30 June 2018.

### Directors

The names and particulars of the directors of the Company during or since the end of the half-year are:

Yehuda Shamai	Non-Executive Chairman
Ido Levanon	Managing Director – DTS Australia
Ron Zuckerman	Non-Executive Director
Adam Sierakowski	Non-Executive Director
Stephen Hewitt-Dutton	Non-Executive Director (Appointed 10 June 2018)
Paul Steele	Non-Executive Chairman (Resigned 7 March 2018)
Mark Bayliss	Non-Executive Chairman (Appointed 7 March 2018, Resigned 10 June 2018)

### Principal activities

The Group's principal activity is providing software solution in the QSR (quick service restaurant) field of activity for Management & Delivery Operations solutions.

### Operating results and financial position

The net loss for the half-year ended 30 June 2018 was \$3,951,545 (2017: \$1,833,452).

### Review of operations

During the six months' ended 30 June 2018, Dragontail has penetrated new markets, established strategic alliances, widened its team and has achieved significant milestones. The Company has also demonstrated its ability to install its systems in an efficient and satisfactory manner, and to cooperate with leading global QSR companies to integrate and meet their specific requirements.

Over the past six months, the Company has ratified its status as the only company in its field to offer a comprehensive technology suit, built from the Company's flag ship products, that can significantly upgrade the performance of the QSR (Quick Service Restaurants) operations.

Significant milestones during the period are as follows:

- Completion of a nationwide roll out of the Algo Dispatching Platform in all Pizza Hut stores in Singapore.
- Launching the Dispatching Platform and the Driver Tracking Module at Recipe Unlimited Corporation (formerly Cara Operations Limited), Canada's largest full service restaurant operator.
- Penetrating India by signing an agreement with Jubilant FoodWorks Limited ("Jubilant"), the master franchise for Domino's Pizza in India, with 1,134 self-owned stores for both the Algo Dispatching system and QT Camera.
- Finalizing the development and preparation for a nationwide installation of the QT quality control camera at Domino's Australia and New Zealand.
- Completing the "Total Technology" product that provides a comprehensive and full-service technological solution to every QSR, which has the potential to more than double Dragontail's revenue per store for those installations. Installation of the first stores in North America begins already this month.
- Maintaining global deployment and expanding the Australian based R&D team.

Since the end of the financial period, Dragontail has:

- Accelerated US market potential penetration by signing a Referral agreement with Restaurant Revolution Technologies Inc.

## **Directors' report**

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### **Review of operations (continued)**

- Partnering with Weezmo Technologies Ltd. – simplifying integration, leveraging Dragontail's products and offering additional technology solutions.

### **Significant changes in state of affairs**

There were no other significant changes in the state of affairs of the Group.

### **Events occurring after the reporting period**

Other than those referred to above, there has not been any other matter or circumstance that has arisen after the reporting date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 4 of the interim financial report.

Signed in accordance with a resolution of the directors



**Ido Levanon**  
**Director**

Israel

31st day of August 2018



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**DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF DRAGONTAIL SYSTEMS LIMITED**

As lead auditor for the review of Dragontail Systems Limited for the half-year ended 30 June 2018, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Dragontail Systems Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Neil Smith', with a stylized flourish at the end.

**Neil Smith**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 31 August 2018



**Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2018**

	Note	Consolidated Half-Year ended 30 June 2018 USD	Consolidated Half-Year ended 30 June 2017 USD
Revenue		309,758	86,236
Research and development expenses		(1,435,841)	(296,406)
Selling and marketing expenses		(264,291)	(236,577)
General and administrative expenses	4	(853,483)	(854,416)
Operating expenses	4	(860,055)	(589,798)
Share based payment expenses	8	(728,524)	-
<b>Total operating expenses</b>		<b>(4,142,194)</b>	<b>(1,977,197)</b>
<b>Operating loss</b>		<b>(3,832,436)</b>	<b>(1,890,961)</b>
Net finance income/(expense)		(119,109)	57,509
<b>Loss before income tax</b>		<b>(3,951,545)</b>	<b>(1,833,452)</b>
Income tax benefit		-	-
<b>Loss for the half-year</b>		<b>(3,951,545)</b>	<b>(1,833,452)</b>
Other comprehensive income for the half-year <i>Amount that will not be reclassified subsequently to profit or loss</i>			-
Adjustments arising from translating financial statements from functional currency to presentation		(174,023)	142,056
<b>Total comprehensive loss for the half-year</b>		<b>(4,125,568)</b>	<b>(1,691,396)</b>
<b>Loss per share for the half-year attributable to members of Dragontail Systems Limited</b>			
Loss per share (basic and diluted) (cents)	7	(1.84)	(1.05)

The accompanying notes form an integral part of this consolidated statement of profit or loss and other comprehensive income.

**Consolidated statement of financial position as at 30 June 2018**

	Note	Consolidated 30 June 2018 USD	Consolidated 31 December 2017 USD
<b>Current Assets</b>			
Cash and cash equivalents		2,780,540	6,404,407
Trade receivables		77,579	44,725
Other receivables		136,089	130,646
Inventory		41,105	1,197
<b>Total Current Assets</b>		<b>3,035,313</b>	<b>6,580,985</b>
<b>Non-Current Assets</b>			
Other receivables		87,807	12,193
Plant and equipment		103,782	74,761
<b>Total Non-Current Assets</b>		<b>191,589</b>	<b>86,954</b>
<b>Total Assets</b>		<b>3,226,902</b>	<b>6,667,939</b>
<b>Current Liabilities</b>			
Trade payables		184,569	294,222
Other payables		348,398	282,772
<b>Total Current Liabilities</b>		<b>532,967</b>	<b>576,994</b>
<b>Total Liabilities</b>		<b>532,967</b>	<b>576,994</b>
<b>Net Assets</b>		<b>2,693,935</b>	<b>6,090,945</b>
<b>Equity</b>			
Issued capital	5	14,046,539	13,758,407
Reserves	6	1,405,689	1,139,286
Accumulated losses		(12,758,293)	(8,806,748)
<b>Total Equity</b>		<b>2,693,935</b>	<b>6,090,945</b>

The accompanying notes form an integral part of this consolidated statement of financial position.

**Consolidated statement of changes in equity for the half-year ended 30 June 2018**

	Share Capital USD	Foreign currency translation reserve USD	Shares based payments reserve USD	Accumulated losses USD	Total USD
<b>2018 Consolidated</b>					
<b>Balance at 1 January 2018</b>	<b>13,758,407</b>	<b>240,224</b>	<b>899,062</b>	<b>(8,806,748)</b>	<b>6,090,945</b>
Loss for the half-year	-	-	-	(3,951,545)	(3,951,545)
<b>Total comprehensive (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,951,545)</b>	<b>(3,951,545)</b>
<b>Transactions with owners, in their capacity as owners</b>					
Issue of shares	288,132	-	-	-	288,132
Share based payment transactions	-	-	440,426	-	440,426
Foreign exchange movements	-	(174,023)	-	-	(174,023)
	288,132	(174,023)	440,426	-	554,535
<b>Balance at 30 June 2018</b>	<b>14,046,539</b>	<b>66,201</b>	<b>1,339,488</b>	<b>(12,758,293)</b>	<b>2,693,935</b>
<b>2017 Consolidated</b>					
<b>Balance at 1 January 2017</b>	<b>7,875,123</b>	<b>83,107</b>	<b>118,240</b>	<b>(4,147,689)</b>	<b>3,928,781</b>
Loss for the half-year	-	-	-	(1,833,452)	(1,833,452)
<b>Total comprehensive (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,833,452)</b>	<b>(1,833,452)</b>
<b>Transactions with owners, in their capacity as owners</b>					
Costs directly attributable to issue of share capital	35,417	-	-	-	35,417
Foreign exchange movements	-	142,056	-	-	142,056
	35,417	142,056	-	-	177,473
<b>Balance at 30 June 2017</b>	<b>7,910,540</b>	<b>225,163</b>	<b>118,240</b>	<b>(5,981,141)</b>	<b>2,592,802</b>

The accompanying notes form an integral part of this consolidated statement of changes in equity.

**Consolidated statement of cash flows for the half-year ended 30 June 2018**

	<b>Consolidated Half-Year ended 30 June 2018 USD</b>	<b>Consolidated Half-Year ended 30 June 2017 USD</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	276,905	82,185
Cash payments to suppliers and employees	(3,473,364)	(1,857,170)
<b>Net cash flows (used in) operating activities</b>	<b>(3,196,459)</b>	<b>(1,774,985)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(46,313)	(11,557)
<b>Net cash flows (used in) investing activities</b>	<b>(46,313)</b>	<b>(11,557)</b>
<b>Cash flows from financing activities</b>		
Costs of capital raising	-	35,417
Receipt/(Repayment) of short term credit from banks	-	(24,739)
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>10,678</b>
Exchange differences on cash balances and cash equivalents	(381,095)	149,804
<b>Net (decrease) in cash and cash equivalents</b>	<b>(3,623,867)</b>	<b>(1,626,060)</b>
Cash and cash equivalents at the beginning of the financial period	6,404,407	4,175,428
<b>Cash and cash equivalents at the end of the financial period</b>	<b>2,780,540</b>	<b>2,549,368</b>

The accompanying notes form an integral part of this consolidated statement of cash flows.

## Notes to the consolidated interim financial statements

### 1. REPORTING ENTITY

This interim financial report includes the financial statements and notes of Dragontail Systems Limited (“the Company”) and its legal subsidiaries (“the Group”). The Company is a for-profit entity and is domiciled in Australia.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The half-year consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2017 and any public announcements made by Dragontail Systems Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide a full understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those adopted and disclosed in the Group’s annual financial report for the financial year ended 31 December 2017.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

#### Accounting Standards Issued

In the half-year ended 30 June 2018, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for reporting periods beginning on or after 1 January 2018. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to the Group’s accounting policies.

#### New Accounting Standards not yet mandatory or early adopted

Reference	Title	Summary	Application date	Expected Impact
AASB 16	<i>Leases</i>	<p>AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.</p> <p>Lessor accounting remains largely unchanged from AASB 117.</p>	Financial years beginning on or after 1 January 2019	The group is currently assessing the impact of this standard, with the initial assessment being no material impact

**Notes to the consolidated interim financial report**

Reference	Title	Summary	Application date	Expected Impact
AASB 15	<i>Revenue from Contracts with Customers</i>	This Standard establishes principles (including disclosure requirements) for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	Financial years beginning on or after 1 January 2018	The Group has adopted this standard from 1 January 2018 and has assessed that there is no material impact from this assessment.
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new standard which Replaces AASB 139. This new version supersedes AASB issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p>	Financial years beginning on or after 1 January 2018	The Group has adopted this standard from 1 January 2018 and has assessed expected credit losses associated on a forward looking basis with no material impact from this assessment.

## Notes to the consolidated interim financial report

### Reporting basis and conventions

The half-year statements have been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### Going concern

This consolidated interim financial report has been prepared on the basis that the consolidated entity will continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

During the period ended 30 June 2018, the consolidated entity incurred losses of \$3,951,545 (30 June 2017: \$1,833,452), net cash outflows from operating activities of \$3,196,459 (30 June 2017: \$1,774,985), and at that date had cash on hand of \$2,780,540 (31 December 2017: \$6,404,417).

The consolidated entity's ability to continue as a going concern and to continue to fund its planned expanded activities is dependent on raising further capital and / or generating additional revenues from its operations and / or reducing operational costs.

These conditions indicate a material uncertainty that may cast a significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe the consolidated entity will continue as a going concern, after consideration of the following factors:

- The consolidated entity has recent successful experience in raising capital having raised \$8 million before costs during October 2017; and
- The consolidated entity has successfully completed the planned first phase of its commercial strategy and now requires additional capital for its next phase. The Company's current intention is to raise additional capital prior to the end of the calendar year through equity or debt in order to fund its expansion and working capital requirements. Initial discussions have commenced with a number of Australian stock brokers and the directors are confident of a successful outcome prior to the end of the calendar year; and
- The consolidated entity is continuing efforts to secure key customers in key markets and are similarly confident of generating additional sales revenue within the next 12 months.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the consolidated entity not continue as a going concern

### 3. INVESTMENT

The consolidated interim financial report of Dragontail Systems Limited and the following subsidiaries:

Name	Country of Incorporation	% Equity Interest	
		30 June 2018	30 June 2017
Dragontail Systems Limited ("DTS Israel")	Israel	100%	100%
DragonTail Systems USA Inc. ("DTS USA")	USA	100%	100%
DragonTail Systems Canada Inc. ("DTS Canada")	Canada	100%	100%

Dragontail Systems Limited is the ultimate Australian parent entity and legal parent of the Group.

## Notes to the consolidated interim financial report

### 4. EXPENSES

	Consolidated 30 June 2018 USD	Consolidated 30 June 2017 USD
<b>Operating expenses:</b>		
Salaries and related expenses	652,605	309,343
Travel expenses	207,450	280,454
	860,055	589,798
<b>General and Administrative expenses:</b>		
Salaries, related expenses and other expenses	853,483	397,399
Travel expenses	-	457,017
	853,483	854,416

### 5. ISSUED CAPITAL

	As at 30 June 2018		As at 31 December 2017	
	No.	USD	No.	USD
Ordinary Shares	215,500,000	14,046,539	213,500,000	13,758,407

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

A reconciliation of the movement in capital and reserves for the Group can be found in the Statement of Changes in Equity.

	Consolidated	
	No	USD
Opening balances as at 1 January 2017	173,500,000	7,910,540
Closing balance 30 June 2017	173,500,000	7,910,540
Opening balances as at 1 January 2018	213,500,000	13,758,407
Issue of shares	2,000,000	288,132
Closing balance 30 June 2018	215,500,000	14,046,539



## Notes to the consolidated interim financial report

### 6. RESERVES

	Consolidated 30 June 2018 USD	Consolidated 31 December 2017 USD
Share based payments reserve	1,339,488	899,062
Foreign currency translation reserve	66,201	240,224
Closing balance	1,405,689	1,139,286

### 7. LOSS PER SHARE

The loss and weighted number of ordinary shares used in the calculation of basic loss per share are as follows:

	30 June 2018 USD	30 June 2017 USD
Loss attributable to ordinary equity holders	(3,951,545)	(1,833,452)
Weighted average number of shares	213,610,497	173,500,000
	213,610,497	173,500,000
Basic loss per share calculation (cents) (loss/weighted average shares)	(1.84)	(1.05)

### 8. SHARE BASED PAYMENTS

#### Share-based Payments Reserve

	30 June 2018 USD
Opening balance 31 December 2017	899,062
Options issued to consultants <sup>1</sup>	64,116
Issued to Employees under the Employee incentive Option plan <sup>2</sup>	23,033
Change in value on change of expiry date <sup>3</sup>	19,126
Issued to Employees under the Employee incentive Option plan <sup>5</sup>	334,151
Closing balance 30 June 2018	1,339,488

## Notes to the consolidated interim financial report

### 8 SHARE BASED PAYMENTS (CONTINUED)

#### Share-based Payments Expense

	30 June 2018 USD	30 June 2017 USD
Options issued to consultants <sup>1</sup>	64,116	118,240
Issued to Employees under the Employee Incentive Option Plan <sup>2</sup>	23,033	-
Change in value on change of expiry date <sup>3</sup>	19,126	-
Issued to Employees under the Employee incentive Option plan <sup>4</sup>	334,151	-
Shares issued to Mark Bayliss <sup>5</sup>	288,098	-
Total expense	<b>728,524</b>	<b>118,240</b>

#### Options

<sup>1</sup> On 20 June 2018, 1,500,000 options vesting immediately were issued pursuant to a mandate for the provision of corporate advisory services. The issue of options is valued at the fair value on grant date as the fair value of the services received was not able to be reliably valued. These options have a fair value of AUD \$86,784 (USD64,116). The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs:

	Options
Exercise Price (AUD)	\$0.40
Grant Date	20 June 2018
Expiry Date	20 June 2021
Risk Free Rate	1.95%
Volatility	100%
Total Value of Options (AUD)	\$86,784
Total Value of Options (USD)	\$64,116

<sup>2</sup> On 30 June 2018, 866,666 options vesting immediately were issued pursuant to the Employee Incentive Option Plan approved at the Annual General Meeting held on 21 May 2018. The issue of options is valued at the fair value on grant date. These options have a fair value of AUD \$31,176 (approximately USD23,033). The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs:

	Options
Exercise Price (AUD)	\$0.22
Grant Date	30 June 2018
Expiry Date	30 June 2019
Risk Free Rate	1.95%
Volatility	100%
Total Value of Options (AUD)	\$31,176
Total Value of Options (USD)	\$23,033

## Notes to the consolidated interim financial report

### 8 SHARE BASED PAYMENTS (CONTINUED)

#### Options

<sup>3</sup>During the year ended 31 December 2016, 1,500,000 incentive options were issued by DTS Australia to Paul Steele as part of his remuneration and to incentivise his performance as contemplated by its Prospectus dated 28 September 2016 and Supplementary Prospectus dated 28 October 2016. The issue of options was valued at AUD \$164,512 (approximately USD118,659). On 21 May 2018 shareholders approved the extension of the expiry date from 31 December 2018 to 31 December 2019. The Company has reassessed the value of the options and an additional expense recognised. The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs:

Options	
Exercise Price (AUD)	\$0.25
Expiry Date	31 Dec 19
Risk Free Rate	1.82%
Volatility	110%
Original Total Value of Options (AUD)	\$164,512
Original Total Value of Options (USD)	\$118,240
Revised Total Value of Options (AUD)	\$190,399
Additional Share Based Payment Expense (AUD)	\$25,887
Additional Share Based Payment Expense (USD)	\$19,126

<sup>4</sup> On 29 June 2018, the Company granted 8,725,000 Employee Incentive Options under the Employee Incentive Option Plan approved at the Annual General Meeting held on 21 May 2018. The issue of options is valued at the fair value on grant date. The options have a total fair value of AUD \$995,775 (approximately USD736,276) which will be expensed in accordance with the vesting periods of the options. The Company has recognised an expense of AUD \$451,922 (approximately USD334,151) in the current reporting period. The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs:

Options	
Exercise Price (AUD)	\$0.22
Grant Date	29 June 2018
Expiry Date	29 June 2025
Risk Free Rate	1.95%
Volatility	100%
Total Value of Options (AUD)	\$995,775
Total Value of Options (USD)	\$736,276

## Notes to the consolidated interim financial report

### 8. SHARE BASED PAYMENTS (CONTINUED)

#### Ordinary Shares

<sup>5</sup>During the period, 2,000,000 fully paid ordinary shares were issued by DTS Australia to Mark Bayliss under the terms of the agreement for his appointment as Chairman. The issue of the shares was subject to shareholder approval which was obtained at the Annual General Meeting held on 21 May 2018. The value of the share based payment has been determined by the price of the Company's shares on that date being \$0.195 AUD per share, and recognised as a share-based payments expense.

#### Performance Shares

The Performance Shares convert into fully paid ordinary shares on the achievement of the milestone being the Company reporting that it has achieved audited annual earnings before interest, taxes, depreciation and amortisation of at least US\$5,500,000 by or before the end of 2019. The performance period of up to 3 years commenced on 1 January 2017. The EBITDA milestone must be achieved by or before 31 December 2019. If the milestone is not satisfied on or before 31 December 2019, the Performance Shares will be redeemed by the Company for nil cash consideration on the day after the Group publishes its financial accounts for the financial year ending 31 December 2019.

For remuneration purposes the value is the number of performance shares granted, multiplied by the share price at date of grant. As at 30 June 2018, these performance shares have not converted into fully paid ordinary shares and each performance share was valued at \$0.21 based on a share price at grant date. At 30 June 2018, no expense has been recognised in respect of these performance shares as a 0% probability has been assigned to meeting the milestone.

The conversion ratio of 1 Conversion Share for 1 Performance Share (Conversion Ratio) will be adjusted subject to the market capitalisation of the Company at the date the Milestone is achieved (Milestone Date). The adjustment will be made in accordance with the sliding scale set out in the following table:

Market Capitalisation at Milestone Date (A\$)	Share Price(A\$) <sup>1</sup>	Conversion Shares to be issued	Value of issued Conversion Shares (A\$)	Conversion Ratio <sup>2</sup>
≤ \$100,000,000	≤ \$ 0.46	25,000,000	\$11,600,928	1 : 1
\$100,000,001 ≤ \$150,000,000	≤ \$ 0.70	18,401,667	\$12,808,585	0.736 : 1
\$150,000,001 ≤ \$200,000,000	≤ \$ 0.93	15,102,501	\$14,016,242	0.604 : 1
\$200,000,001 ≤ \$300,000,000	≤ \$ 1.39	10,935,835	\$15,223,900	0.437 : 1
\$300,000,001 ≤ \$400,000,000	≤ \$ 1.86	8,852,502	\$16,431,558	0.354 : 1
≥ \$400,000,001	≤ \$ 2.32	7,602,502	\$17,639,216	0.304 : 1

Notes:

1. The Share Price assumes 215,500,000 shares on issue and is indicative only.
2. The Conversion Ratio assumes that 25,000,000 Performance Shares are issued by the Company.

A holder of Performance Shares is entitled to receive notices of general meetings and financials reports of the Company but is not entitled to vote on any resolutions proposed at a general meeting of the Company, other than as specifically allowed for under the Corporations Act. The Performance Shares do not entitle a holder to any dividends and do not confer on a holder any right to participate in surplus profits or assets of the Company upon the winding up of the Company. The Performance Shares are not transferable and do not entitle the holder to participate in new issues of securities.

## Notes to the consolidated interim financial report

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### 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to their short-term nature, the carrying amounts of the current receivables and current payables are assumed to approximate their fair value.

### 10. RELATED PARTY TRANSACTIONS

Refer to Note 8 for new related party transactions with key management personnel during the period. There were no other transactions with related parties during the half-year other than those that were on the same basis as stated in the 31 December 2017 Annual Report.

### 11. CONTINGENT LIABILITIES & COMMITMENTS

As at the date of the report, the Directors of the Group are not aware of any material contingent liabilities or commitments that would require disclosure.

### 12. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Since the end of the financial period, Dragontail has:

- Accelerated US market potential penetration by signing a Referral agreement with Restaurant Revolution Technologies Inc.
- Partnered with Weezmo Technologies Ltd. – simplifying integration, leveraging Dragontail's products and offering additional technology solutions.

There has not been any other matter or circumstance that has arisen after the reporting date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

### 13. SEGMENT NOTE

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Company is organized into operating segments based on the services of the business units. The company recognizes activities of software for customers in the field of QSR (quick service restaurant) as the only reporting segment.

**Notes to the consolidated interim financial report**

**13. SEGMENT NOTE (CONTINUED)**

	Segment revenue		Segment expenses	
	Consolidated Half-Year ended 30 June 2018	Consolidated Half-Year ended 30 June 2017	Consolidated Half-Year ended 30 June 2018	Consolidated Half-Year ended 30 June 2017
	USD	USD	USD	USD
Sale of software in development	309,758	86,236	(1,435,841)	(296,406)
Total for continuing operations	309,758	86,236	(1,435,841)	(296,406)
Finance expenses (net of finance income)	-	57,509	(119,109)	-
Selling and marketing expenses	-	-	(264,291)	(236,577)
General and administrative expenses	-	-	(853,483)	(854,416)
Operating expenses	-	-	(860,055)	(589,298)
Share based payment expenses	-	-	(728,524)	-
<b>Total revenue/(expenses) before tax (continuing operations)</b>	<b>309,758</b>	<b>143,745</b>	<b>(4,261,303)</b>	<b>(1,977,197)</b>

	Consolidated 30 June 2018 USD	Consolidated 31 December 2017 USD
Segment Assets	-	-
Unallocated assets	3,226,902	6,667,939
Total assets	3,226,902	6,667,939

	Consolidated 30 June 2018 USD	Consolidated 31 December 2017 USD
Segment Liabilities	-	-
Unallocated liabilities	532,967	576,994
Total Liabilities	532,967	576,994

**Notes to the consolidated interim financial report**

**14. SEGMENT NOTE (CONTINUED)**

**Geographic information**

Revenues reported in the financial statements derive from the Company's country of domicile (Israel) and foreign countries based on the location of the customers, are as follows:

	<b>Consolidated Half-Year ended 30 June 2018 USD</b>	<b>Consolidated Half-Year ended 30 June 2017 USD</b>
Israel	113,268	14,278
Australia	90,949	-
Canada	91,447	69,738
USA	14,094	2,220
Total revenues	309,758	86,236

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements.

	<b>Consolidated Half-Year ended 30 June 2018 USD</b>	<b>Consolidated Half-Year ended 30 June 2017 USD</b>
Customer A	94,812	-
Customer B	85,550	-
Customer C	49,767	47,153
Customer D	4,615	9,132

### **Directors' declaration**

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The Directors of the Group declare that:

1. The financial statements and notes, as set out on pages 5 to 19:
  - (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (b) give a true and fair view of the economic entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



**Ido Levanon**

Director

Israel

31 August 2018



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Dragontail Systems Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Dragontail Systems Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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 half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

#### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Neil Smith', is written over a faint, stylized 'BDO' logo.

**Neil Smith**

**Director**

Perth, 31 August 2018