

RULE 4.2A

APPENDIX 4D

Half-year Report for the period ending 30 June 2019

1. Name of entity

| |
|---|
| DRAGONTAIL SYSTEMS LIMITED AND ITS CONTROLLED ENTITIES |
|---|

| ABN | Reporting Period | Previous Corresponding Period |
|----------------|---------------------------------|---------------------------------|
| 63 614 800 136 | Half year ended 30 June 2019 | Half year ended 30 June 2018 |

2. Results for Announcement to the Market

| Financial Results | | | | 30 June 2019 |
|---|------|--|----|--------------|
| Revenues from ordinary activities (<i>item 2.1</i>) | Up | 32% | to | 409,218 |
| Loss from ordinary activities after tax attributable to members (<i>item 2.2</i>) | Down | 3% | to | (4,011,144) |
| Loss for the period attributable to members (<i>item 2.3</i>) | Down | 3% | to | (4,011,144) |
| 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>): | | During the six months ended 30 June 2019, the company has made a leap forward on an operational level, reaching a record number of installations worldwide. The Company has maintained its strong position within its leading global QSR (Quick Service Restaurants) customers and received strong validation of its products from its global customers. | | |

3. NTA Backing

| | Current Period | Previous Corresponding Period |
|--|----------------|-------------------------------|
| Net tangible assets per ordinary share (<i>Item 3</i>) | 0.23 cents | 1.25 cents |

4. Control gained over entities

| | |
|--|-----|
| Details of entities over which control has been gained or lost (<i>item 4</i>) | N/A |
|--|-----|

5. Dividends paid and payable

| | |
|---|--|
| Details of dividends or distribution payments (<i>item 5</i>) | No dividends or distributions are payable. |
|---|--|

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. |
|--|--|

7. Details of associates

| | |
|--|-----|
| Details of associates and joint venture entities (<i>item 7</i>) | N/A |
|--|-----|

8. Foreign entities

| | |
|--|-----|
| Foreign entities to disclose which accounting standards are used in compiling the report (<i>item 8</i>) | N/A |
|--|-----|

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 2019**

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Corporate information

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

Mr Yehuda Shamai (*appointed 14 September 2016*)

Mr Ido Levanon (*appointed 14 September 2016*)

Mr Ron Zuckerman (*appointed 14 September 2016*)

Mr Adam Sierakowski (*appointed 14 September 2016*)

Mr Stephen Hewitt-Dutton (*appointed 11 June 2018*)

Company Secretary

Mr Stephen Hewitt-Dutton (*appointed 10 May 2018*)

Registered Office

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Perth WA 6000

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Website

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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

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 2019.

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 |
| Ron Zuckerman | Non-Executive Director |
| Adam Sierakowski | Non-Executive Director |
| Stephen Hewitt-Dutton | Non-Executive Director |

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 2019 was \$4,045,582 (2018: \$3,951,545).

Review of operations

During the six months ended 30 June 2019, the company has made a leap forward on an operational level, reaching a record number of installations worldwide. The Company has maintained its strong position within its leading global QSR (Quick Service Restaurants) customers and received strong validation of its products from its global customers. In addition, the Company sees great potential in working with leading aggregators and entered that segment by establishing strategic partnerships.

For the past six months, the Company has continued to enjoy its industry-leading slot, as the sole provider of its unique technology, while being granted with the patent protection for its QT Artificial Intelligence (AI) Camera in the US.

Significant milestones during the period are as follows:

- The company demonstrated a strong monthly installation rate achieving over 1,600 locations, which is a 5-fold increase since the beginning of the year. This comprised of the Company's two flagship products, the ALGO Dispatching Platform and the Artificial Intelligence (AI) QT Camera. The Company has demonstrated a strong monthly installation rate capability that reached up to over 300 locations a month.
- Nationwide rollout of the QT Camera completed in more than 800 Domino's Pizza stores across Australia and New Zealand, with very positive initial results.
- The US Patent for the QT Camera was granted containing a broad and comprehensive protection of the QT Camera's unique technology and work method, encompassing 18 different claims.
- The roll out of the company's Algo platform across Pizza Hut stores in Australia has begun and is expected to be completed by the end of the year.

Directors' report

Review of operations (continued)

- Completing the "Total Technology" product that provides a comprehensive, full-service technological solution, which has the potential to more than double the Company's revenue per store for those installations. Installation of the first stores in North America has begun with the aim of developing and expanding this area of activity.

Since the end of the financial period, the company has:

- Secured a A\$4.3m debt facility from the its largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd.
- Established Strategic Alliances with two of the world's leading food-delivery aggregators, DoorDash (North America) and Kin Shun (Asia-Pacific), vastly increasing the Company's Total Addressable Market (TAM)

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

On July 16, 2019, the Company secured debt funding from the its largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd, a member of the Alceon Group and manager of the Alceon High Conviction Absolute Return Fund ("Alceon"). The facility is in the form of a senior, unsecured corporate loan (the "Loan") for the amount of AUD \$4.3m and is for a two-year term.

The loan bears an annual interest rate of 15% per annum, for month 1-8, for month 9-24: 17.5% per annum. Repayment: in full at maturity, or can be repaid early in full, at any time, subject to minimum interest payment of 6 months.

Payment of interest will be made on the 15th of the following month of each quarter.

On 5 August 2019, under the terms of the Loan the Company issued 2 options to Alceon. The terms of the Options are as follows

- 1 Option with a \$0.22 per share exercise price, exercisable into 5,000,000 fully paid ordinary shares, and an expiry of 16 July 2021; and
- 1 Option with a \$0.25 per share exercise price, exercisable into 5,000,000 fully paid ordinary shares, and expiry of 16 July 2021

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

30th day of August 2019

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 2019, 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.



Neil Smith
Director

BDO Audit (WA) Pty Ltd
Perth, 30 August 2019

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2019

| | Note | Consolidated Half-Year ended 30 June 2019 USD | Consolidated Half-Year ended 30 June 2018 USD |
|--|------|--|--|
| Revenue | | 409,218 | 309,758 |
| Research and Development ("R&D") tax incentive | | 512,492 | - |
| | | <u>921,710</u> | <u>309,758</u> |
| Research and development expenses | | (2,381,051) | (1,435,841) |
| Selling and marketing expenses | | (92,936) | (264,291) |
| General and administrative expenses | 4 | (976,976) | (853,483) |
| Operating expenses | 4 | (888,336) | (860,055) |
| Share based payment expenses | 8 | (582,133) | (728,524) |
| Total operating expenses | | <u>(4,921,432)</u> | <u>(4,142,194)</u> |
| Operating loss | | (3,999,722) | (3,832,436) |
| Net finance income/(expense) | | <u>(45,860)</u> | <u>(119,109)</u> |
| Loss before income tax | | (4,045,582) | (3,951,545) |
| Income tax benefit | | <u>-</u> | <u>-</u> |
| Loss for the half-year | | <u>(4,045,582)</u> | <u>(3,951,545)</u> |
| 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 | | <u>34,438</u> | <u>(174,023)</u> |
| Total comprehensive loss for the half-year | | <u>(4,011,144)</u> | <u>(4,125,568)</u> |
| Loss per share for the half-year attributable to members of Dragontail Systems Limited | | | |
| Loss per share (basic and diluted) (cents) | 7 | (1.63) | (1.84) |

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 2019

| | Note | Consolidated 30 June 2019 USD | Consolidated 31 December 2018 USD |
|----------------------------------|------|-------------------------------------|---|
| Current Assets | | | |
| Cash and cash equivalents | | 998,775 | 3,784,678 |
| Trade receivables | | 105,228 | 376,854 |
| Inventories | | 34,951 | 307,379 |
| Other receivables | | 93,866 | 193,303 |
| Total Current Assets | | 1,232,820 | 4,662,214 |
| Non-Current Assets | | | |
| Other receivables | | 9,725 | 7,211 |
| Plant and equipment | | 86,565 | 105,323 |
| Total Non-Current Assets | | 96,290 | 112,534 |
| Total Assets | | 1,329,110 | 4,774,748 |
| Current Liabilities | | | |
| Trade payables | | 249,727 | 279,974 |
| Other payables | | 503,416 | 489,795 |
| Total Current Liabilities | | 753,143 | 769,769 |
| Total Liabilities | | 753,143 | 769,769 |
| Net Assets | | 575,967 | 4,004,979 |
| Equity | | | |
| Issued capital | 5 | 18,630,932 | 18,348,386 |
| Reserves | 6 | 1,838,904 | 1,504,880 |
| Accumulated losses | | (19,893,869) | (15,848,287) |
| Total Equity | | 575,967 | 4,004,979 |

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 2019

| | Share Capital USD | Foreign currency translation reserve USD | Shares based payments reserve USD | Accumulated losses USD | Total USD |
|--|----------------------|--|---|---------------------------|--------------------|
| 2019 Consolidated | | | | | |
| Balance at 1 January 2019 | 18,348,386 | 165,392 | 1,339,488 | (15,848,287) | 4,004,979 |
| Loss for the half-year | - | - | - | (4,045,582) | (4,045,582) |
| Foreign exchange movements | - | 34,438 | - | - | 34,438 |
| Total comprehensive (loss) | - | 34,438 | - | (4,045,582) | (4,011,144) |
| Transactions with owners, in their capacity as owners | | | | | |
| Issue of shares | 282,547 | - | (282,547) | - | - |
| Shares bought back on market and cancelled (Note 5) | (1) | - | - | - | (1) |
| Share based payment transactions | - | - | 582,133 | - | 582,133 |
| | 282,546 | - | 299,586 | - | 582,132 |
| Balance at 30 June 2019 | 18,630,932 | 199,830 | 1,639,074 | (19,893,869) | 575,967 |
| 2018 Consolidated | | | | | |
| Balance at 1 January 2018 | 13,758,407 | 240,224 | 899,062 | (8,806,748) | 6,090,945 |
| Loss for the half-year | - | - | - | (3,951,545) | (3,951,545) |
| Foreign exchange movements | - | (174,023) | - | - | (174,023) |
| Total comprehensive (loss) | - | (174,023) | - | (3,951,545) | (4,125,568) |
| Transactions with owners, in their capacity as owners | | | | | |
| Issue of shares | 288,132 | - | - | - | 288,132 |
| Share based payment transactions | - | - | 440,426 | - | 440,426 |
| | 288,132 | - | 440,426 | - | 728,558 |
| Balance at 30 June 2018 | 14,046,539 | 66,201 | 1,339,488 | (12,758,293) | 2,693,935 |

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 2019

| | Consolidated Half-Year ended 30 June 2019 USD | Consolidated Half-Year ended 30 June 2018 USD |
|---|--|--|
| Cash flows from operating activities | | |
| Receipts from customers | 726,755 | 276,905 |
| Receipt from ATO for R&D incentive | 512,495 | - |
| Cash payments to suppliers and employees | (4,029,915) | (3,473,364) |
| Net cash flows (used in) operating activities | (2,790,665) | (3,196,459) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (4,086) | (46,313) |
| Net cash flows (used in) investing activities | (4,086) | (46,313) |
| Cash flows from financing activities | | |
| Payments for shares bought back | (1) | - |
| Net cash flows from financing activities | (1) | - |
| Exchange differences on cash balances and cash equivalents | 8,849 | (381,095) |
| Net (decrease) in cash and cash equivalents | (2,785,903) | (3,623,867) |
| Cash and cash equivalents at the beginning of the financial period | 3,784,678 | 6,404,407 |
| Cash and cash equivalents at the end of the financial period | 998,775 | 2,780,540 |

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.

The Group’s registered office and principal place of business is disclosed in the corporate directory.

This half-year financial report was authorised for issue by the directors on 30 August 2019.

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 2018 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 2018 except for adoption of AASB16.

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.

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

The Group has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 Leases and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

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.

Notes to the consolidated interim financial report

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group 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.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The Group 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.

As a result of the adoption of AASB 16 Leases, management have assessed their worldwide lease commitments and determined that this accounting standard does not have an impact on the statement of financial position or statement of comprehensive income due to the short-term nature of all leases.

New and revised Australian Accounting Standards and Interpretations on issue 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 17 <i>Insurance Contracts</i> | 1 January 2021 |
| AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i> | 1 January 2020 |
| AASB 2019-1 <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i> | 1 January 2020 |

Notes to the consolidated interim financial report

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2019, the consolidated entity incurred losses of \$4,045,582 (30 June 2018: \$3,951,545), net cash outflows from operating activities of \$2,790,665 (30 June 2018: \$3,196,459), and at that date had cash on hand of \$998,775 (31 December 2018: \$3,784,678).

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:

- On 16 July 2019 the consolidated entity secured debt funding from the Company's largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd, a member of the Alceon Group and manager of the Alceon High Conviction Absolute Return Fund ("Alceon"). The facility is in the form of a senior, unsecured corporate loan (the "Loan") for the amount of AUD \$4.3m and is for a two-year term;
- The Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements and the Group is planning to raise further funds through the placement of ordinary shares in the foreseeable future;
- The consolidated entity has successfully demonstrates its operational capabilities by increasing its install base globally, and successfully executing its commercial strategy; and
- The consolidated entity is continuing its efforts to secure additional key customers in key markets and are similarly confident of generating additional sales revenue within the next 12 months.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements or raise additional capital through equity or debts raisings. The interim 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 Group not continue as a going concern and meet its debts as and when they become due and payable.

3. INVESTMENT

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

| Name | Country of Incorporation | % Equity Interest | |
|---|--------------------------|-------------------|--------------|
| | | 30 June 2019 | 30 June 2018 |
| 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 2019 USD | Consolidated 30 June 2018 USD |
|---|--|--|
| Operating expenses: | | |
| Salaries and related expenses | 784,585 | 652,605 |
| Travel expenses | 103,751 | 207,450 |
| | 888,336 | 860,055 |
| General and Administrative expenses: | | |
| Salaries, related expenses and other expenses | 959,220 | 853,483 |
| Travel expenses | 17,756 | - |
| | 976,976 | 853,483 |

5. ISSUED CAPITAL

| | As at 30 June 2019 | | As at 31 December 2018 | |
|-----------------|---------------------------|------------|-------------------------------|------------|
| | No. | USD | No. | USD |
| Ordinary Shares | 248,266,723 | 18,630,932 | 248,000,000 | 18,348,386 |

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 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 |
| Opening balances as at 1 January 2019 | 248,000,000 | 18,348,386 |
| Shares bought back on market and cancelled ¹ | (2,000,000) | (1) |
| Issue of shares on exercise of options | 2,266,273 | 282,547 |
| Closing balance 30 June 2019 | 248,266,273 | 18,630,932 |

¹On June 2019 the Company purchased and cancelled 2,000,000 shares for a total consideration of \$1 as approved at the Annual General Meeting held on 29 May 2019.

Notes to the consolidated interim financial report

6. RESERVES

| | Consolidated 30 June 2019 USD | Consolidated 31 December 2018 USD |
|--------------------------------------|--|--|
| Share based payments reserve | 1,639,074 | 1,339,488 |
| Foreign currency translation reserve | 199,830 | 165,392 |
| Closing balance | <u>1,838,904</u> | <u>1,504,880</u> |

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 2019 USD | 30 June 2018 USD |
|---|---------------------------------|---------------------------------|
| Loss attributable to ordinary equity holders | (4,045,582) | (3,951,545) |
| Weighted average number of shares | 247,847,517 | 213,610,497 |
| | <u>247,847,517</u> | <u>213,610,497</u> |
| Basic loss per share calculation (cents) (loss/weighted average shares) | <u>(1.63)</u> | <u>(1.84)</u> |

8. SHARE BASED PAYMENTS

Share-based Payments Reserve

| | 30 June 2019 USD |
|---|---------------------------------|
| Opening balance 31 December 2018 | 1,339,488 |
| Options exercised during the period | (282,547) |
| Issued to Employees under the Employee incentive Option plan ¹ | 582,133 |
| Closing balance 30 June 2019 | <u>1,639,074</u> |

Notes to the consolidated interim financial report

8 SHARE BASED PAYMENTS (CONTINUED)

Share-based Payments Expense

| | 30 June 2019 USD | 30 June 2018 USD |
|---|------------------------|------------------------|
| Options issued to consultants ² | - | 64,116 |
| Issued to Employees under the Employee Incentive Option Plan ¹ | 582,133 | 357,184 |
| Change in value on change of expiry date ³ | - | 19,126 |
| Shares issued to Mark Bayliss ⁴ | - | 288,098 |
| Total expense | 582,133 | 728,524 |

Options

¹ The Company has issued options to employees 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. The value of the options granted will be expensed in accordance with the vesting periods of the options. The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs:

| | Options Expiring 30 June 2019 | Options Expiring 29 June 2025 | Options Expiring 15 Nov 2025 | Options Expiring 15 Nov 2025 |
|--|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Number of Options | 866,666 | 8,725,000 | 3,650,000 | 3,400,000 |
| Exercise Price (AUD) | \$0.22 | \$0.22 | \$0.15 | \$0.00 |
| Grant Date | 30 June 2018 | 29 June 2018 | 15 May 2019 | 15 May 2019 |
| Expiry Date | 30 June 2019 | 29 June 2025 | 15 Nov 2025 | 15 Nov 2025 |
| Risk Free Rate | 1.95% | 1.95% | 1.55% | 1.55% |
| Volatility | 100% | 100% | 100% | 100% |
| Total Value of Options (AUD) | \$31,176 | \$995,775 | \$542,202 | \$612,000 |
| Total Value of Options (USD) | \$23,033 | \$736,276 | \$375,041 | \$423,320 |
| Value expensed in period ended 30 June 2018 | \$23,033 | \$334,151 | - | - |
| Value expensed in period ended 30 June 2019 | - | \$30,768 | \$191,365 | \$360,000 |

Notes to the consolidated interim financial report

8 SHARE BASED PAYMENTS (CONTINUED)

Options

² 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 |

³During 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 the company's Prospectus dated 28 September 2016 and Supplementary Prospectus dated 28 October 2016. The issue of options was valued at AUD \$164,512 (approximately USD118,240). 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 |

Notes to the consolidated interim financial report

8. SHARE BASED PAYMENTS (CONTINUED)

Ordinary Shares

⁴During the prior 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.

On 21 June, 2019, the company purchased back the 2,000,000 shares. The total payment transferred to Mark Bayliss was \$1 AUD for the 2 million shares.

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 2019, these performance shares have not converted into fully paid ordinary shares and each performance share was valued at \$0.165 based on a share price at grant date. At 30 June 2019, 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\$) ¹ | Conversion Shares to be issued | Value of issued Conversion Shares (A\$) | Conversion Ratio ² |
|---|-------------------------------|--------------------------------|---|-------------------------------|
| ≤ \$100,000,000 | ≤ \$ 0.40 | 25,000,000 | \$10,069,833 | 1 : 1 |
| \$100,000,001 ≤ \$150,000,000 | ≤ \$ 0.60 | 18,401,667 | \$11,118,103 | 0.736 : 1 |
| \$150,000,001 ≤ \$200,000,000 | ≤ \$ 0.81 | 15,102,501 | \$12,166,373 | 0.604 : 1 |
| \$200,000,001 ≤ \$300,000,000 | ≤ \$ 1.21 | 10,935,835 | \$13,214,644 | 0.437 : 1 |
| \$300,000,001 ≤ \$400,000,000 | ≤ \$ 1.61 | 8,852,502 | \$14,262,915 | 0.354 : 1 |
| ≥ \$400,000,001 | ≤ \$ 2.01 | 7,602,502 | \$15,281,029 | 0.304 : 1 |

Notes:

1. The Share Price assumes 248,266,273 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

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 2018 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

On July 16, 2019, the Company secured debt funding from the its largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd, a member of the Alceon Group and manager of the Alceon High Conviction Absolute Return Fund ("Alceon"). The facility is in the form of a senior, unsecured corporate loan (the "Loan") for the amount of AUD \$4.3m and is for a two-year term.

The loan bears an annual interest rate of 15% per annum, for month 1-8, for month 9-24: 17.5% per annum. Repayment: in full at maturity, or can be repaid early in full, at any time, subject to minimum interest payment of 6 months.

Payment of interest will be made on the 15th of the following month of each quarter .

On 5 August 2019, under the terms of the Loan the Company issued 2 options to Alceon .The terms of the Option s are as follows

- 1 Option with a \$0.22 per share exercise price, exercisable into 5,000,000 fully paid ordinary shares, and an expiry of 16 July 2021; and
- 1 Option with a \$0.25 per share exercise price, exercisable into 5,000,000 fully paid ordinary shares, and expiry of 16 July 2021

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 and expenses | |
|--|--|--|
| | Consolidated Half-Year ended 30 June 2019 USD | Consolidated Half-Year ended 30 June 2018 USD |
| Sale of software in development | 409,218 | 309,758 |
| Research and Development (R&D) tax incentive | 512,492 | - |
| Total for continuing operations | 921,710 | 309,758 |
| Research and Development expenses | (2,381,051) | (1,435,841) |
| Finance expenses (net of finance income) | (45,860) | (119,109) |
| Selling and marketing expenses | (92,936) | (264,291) |
| General and administrative expenses | (976,976) | (853,483) |
| Operating expenses | (888,336) | (860,055) |
| Share based payment expenses | (582,133) | (728,524) |
| Total revenue/(expenses) before tax (continuing operations) | (4,045,582) | (3,951,545) |

| | Consolidated 30 June 2019 USD | Consolidated 31 December 2018 USD |
|---------------------|--|--|
| Segment Assets | 1,329,110 | 4,774,748 |
| Unallocated assets | - | - |
| Total assets | 1,329,110 | 4,774,748 |

| | Consolidated 30 June 2019 USD | Consolidated 31 December 2018 USD |
|--------------------------|--|--|
| Segment Liabilities | 753,143 | 769,769 |
| Unallocated liabilities | - | - |
| Total Liabilities | 753,143 | 769,769 |

Notes to the consolidated interim financial report

13. 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:

| | Consolidated Half-Year ended 30 June 2019 USD | Consolidated Half-Year ended 30 June 2018 USD |
|----------------|--|--|
| Israel | 20,275 | 113,268 |
| Australia | 243,567 | 90,949 |
| Canada | 94,036 | 91,447 |
| USA | 51,340 | 14,094 |
| Total revenues | 409,218 | 309,758 |

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

| | Consolidated Half-Year ended 30 June 2019 USD | Consolidated Half-Year ended 30 June 2018 USD |
|------------|--|--|
| Customer A | 35,155 | 94,812 |
| Customer B | 178,430 | 85,550 |
| Customer C | 37,503 | 49,767 |
| Customer D | 41,670 | - |

Directors' declaration

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 2019 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

30 August 2019

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 2019, 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 2019 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 2019 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 black ink, appearing to read 'Neil Smith', is written over a small, faint BDO logo.

Neil Smith
Director

Perth, 30 August 2019