ASX ANNOUNCEMENT

DRAGONTAIL SYSTEMS – HY2019 UPDATE

RECORD INCREASE IN INSTALLATIONS

30 August 2019 (Melbourne): Dragontail Systems Limited (ASX: DTS) ("Dragontail" or "Company") is pleased to announce its results for the six months ended 30 June 2019 (H1 2019).

HIGHLIGHTS

- **During H1 2019, the Company generated USD 409K (AUD 584K) revenue, a growth of 32% compared to H1 2018 revenue USD 310K (AUD 413K). An even larger increase of 166% was realized in Customer Receipts from USD 277K in H1 2018 to USD 727K in H1 2019**

- **Record increase in installed base to over 1,600 locations, which is a 5-fold increase since the beginning of the year**.

- **Nationwide rollout of the AI 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 Dragontail's Algo platform across all Pizza Hut stores in Australia is gaining momentum after a successful roll out in company-owned stores**

- **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 has begun with the aim of developing and expanding this area of activity.**

- **A$4.3m debt facility secured from the Company's largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd.**

SUBSEQUENT FINANCIAL PERIOD EVENTS

- **Since the end of the financial period, Dragontail has 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).**

Over the past six months, the Company has continued to strengthen its position and its relationships with the leading global QSR (Quick Service Restaurants) customers, while exploring some exciting opportunities that would lead to expanding its marketing platform. In addition, Dragontail has demonstrated its ability to install its products in an efficient and satisfactory manner, delivering results as expected.

Commenting on the Company's activities over H1 2019, Dragontail's CEO Ido Levanon said:

"Over the past six months, the Company has met its commitments and successfully completed its largest project to date, of installing hundreds of its QT AI camera across Australia and New Zealand, while at the same time adding hundreds of new installations of the Algo. Our installation base has grown significantly, demonstrating high installation capability and swift deployment of our products. In addition, the company is attentive to the market's trends and therefore allocates resources to collaborations with aggregators, which constitute a significant leverage for future expansion.

We are confident in our products' strength and their added value to customers. On top of that, we believe that the applicative nature of our products, and its inherent flexibility, will bring us to amazing and extraordinary projects in the future. Dragontail's products are being installed in some of the largest QSR businesses globally like Pizza Hut, KFC, Recipe Unlimited Canada and Domino's, and we can assume some more interesting partners will be added to that respectful list".

Financial overview

Dragontail Systems continues to grow and extend its activity, and during H1 2019, generated USD 409K (AUD 584K) revenue, a growth of 32% compared to H1 2018 revenue USD 310K (AUD 413K).

Cash receipts from clients of USD 727K (AUD 1,038K), up 166% compared to H1 2018 USD 277K (AUD 369K).

Receipt of Australian Government's tax incentive for the Company's R&D activities in Australia of USD 512K (AUD 726K).

The Company expects revenue to continue growing through the remainder of the financial year.

A debt funding of USD 3M (AUD 4.3M) was secured and received after the reporting period, placing the Company's cash balance in line with the budget expectations.

Operating overview

During the six months' ended 30 June 2019, Dragontail achieved significant growth in installations, reaching a record number of installations worldwide. The Company, has maintained its strong position within its leading global QSR customers and received strong validation on its products from its global customers. In addition, the Company sees great potential in allaying with leading food delivery aggregators and so penetrated into that segment establishing strategic partnerships.

For the past six months, the Company has continued to enjoy its industry-leading position, 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.

Dragontail 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.

Dragontail demonstrated record growth in the number of installed stores during the first 6 months of this year, with a total of 1,603 stores. This strong growth support the Company's deep relationships with its Tier 1 global QSR customers and provides further validation of its technology.

As previously outlined, the Company's sales efforts are currently focused on its strong pipeline of large, global QSR chains, execution on which will deliver step-change growth in contracted and installed stores. Inevitably, the sales cycle for these large customers is longer than smaller groups, who will equally benefit from the Company's products but are not currently being actively marketed to.

Dragontail has completed nationwide rollout of its Artificial Intelligence (AI)-driven quality control system (QT Camera) in more than 800 Domino's Pizza stores across Australia and New Zealand, with very positive initial results.

The QT Camera was installed with the aim of significantly improving product quality and consistency throughout all Domino's stores in Australia and New Zealand. The system recognizes, analyses and grades pizzas based on pizza type, topping accuracy and distribution in less than three seconds. By using AI, it compares this data with a large dataset of correctly made pizzas, delivering an instant assessment to the kitchen. Early results indicate significant benefits to quality control and customer satisfaction.

The QT Camera is proving very effective at solving issues of food quality and customer satisfaction with assessments provided in Dominos recent reports of product quality scores increasing 15% due to the QT system.

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.

After working closely with the USPTO, Dragontail was granted the patent rights for its QT Quality Control Camera in the USA on April 9, 2019 (patent No. 10,254,264). The QT Camera relies on a unique work method that uses artificial intelligence and channels the information collected by it to monitor the food items its scans. The QT Camera provides an indication of the food quality and its suitability to the standards set by the store and the end-customers' requirements, in real time and acts as an efficient management tool.

The roll out of Dragontail's Algo platform across all Pizza Hut stores in Australia is gaining momentum after a successful roll out in company-owned stores. After experiencing positive results from these stores, the Company is accelerating installations in franchisee stores. More than 280 stores are scheduled to be installed during 2019.

The Pizza Hut Australia rollout represents another customer installing the Algo system on a nationwide basis, following on from nationwide deployment in Singapore and Canada.

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 has begun with the aim of developing and expanding this area of activity.

The total solution comprises of Dragontail's products and modules together with a POS (Point Of Sale) capabilities thus, creating an end-to-end solution that will give a total and comprehensive answer to the Company's QSR customers.

Strategic Alliances formed with two of the world's leading US based food-delivery aggregator, DoorDash (North America) and emerging Hong Kong based Kin Shun (Asia-Pacific).

These strategic alliances arose due to Dragontail's unique ability to offer its Algo Platform customers the flexibility to fulfill deliveries using their own employed drivers alongside the delivery offerings of aggregator platforms such as DoorDash and Kin Shun. These strategic alliances mark the Company's entry into the fast-growing food aggregator/delivery app channel, which vastly increases the Company's total accessible market (TAM).

Dragontail believes its products can provide the operating flexibility sought by many QSR's in relation to aggregator platforms and mode of delivery. The potential benefits will be in the form of reduced labor costs, enhanced coordination between the food preparation and dispatching process, improved delivery times and consequent improvements to customer satisfaction levels.

A\$4.3m debt facility secured from the Company's largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd.

Subsequent to half-end, Dragontail 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 (refer ASX announcement 16 July 2016). The facility is a two-year senior, unsecured corporate loan for the amount of A\$4.3m.

The loan was drawn down on July 16th and provides the Company with the working capital it needs to continue the aggressive roll-out of its products among its global customer base, as well as to pursue significant new opportunities. The Board believes that modest debt funding balances the Company's need for capital to deliver on its near-term growth plans, without significantly diluting existing shareholders by raising equity at prices that, in the Board's view, do not reflect the underlying value of the Company.

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About Dragontail Systems

Dragontail is revolutionising the Quick Service Restaurant (QSR) 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.