

Dragontail Systems Limited and its Controlled Entities
ACN 614 800 136

Appendix 4E – Preliminary Final Report for the Year Ended 31 December 2019

Results for announcement to market	Up / Down	% Change	2019 \$	2018 \$
Revenue from ordinary activities	Down	28%	769,247	1,074,676
Loss after tax from ordinary activities attributable to members	Up	9%	(7,708,664)	(7,041,539)
Loss attributable to members	Up	9%	(7,708,664)	(7,041,539)

Dividend Information	Amount per share	Franked Amount per share
Dividend – current reporting period	Nil	Nil
Dividend – previous reporting period	Nil	Nil

Net Tangible Asset Backing per Ordinary Share	Cents
Net tangible asset backing per ordinary share – current reporting period	-1.01
Net tangible asset backing per ordinary share – previous reporting period	1.61

Commentary on the Results for the Period

Year ended 31 December 2019

Total revenue for 2019 was approximately \$300K lower than 2018 due to a \$730K reduction in hardware sales revenue, while Monthly Recurring Revenue in 2019 was almost 2.5 Times than 2018, as well as the one time installation and training that more than doubled.

Revenue Comparison 2019 to 2018

Revenue	2019	2018	Variance	
	\$	%	\$	%
Monthly Recurring Revenue	521,623	209,941	311,682	148%
Hardware	39,383	772,251	(732,868)	(95)%
Installation and training	208,241	92,484	115,757	125%
Total	769,247	1,074,676	(305,429)	(28)%

Total loss for the year was up 9% to \$7,708,664 (2018: loss of \$7,041,539), of which 12% increase was due to R&D expenses of \$3,475,044 (2018: \$3,110,081).

The company keeps investing in new projects including the aggregator model, new quality control camera and additional ALGO despatching features.

Audit

This Preliminary Final Report is based on the Annual Financial Report which is in the process of being audited.



Ido Levanon
Managing Director

Dated at Israel this 28th day of February 2020

Principal activities

The Group's principal activities are research and development of software for customers in the field of QSR (quick service restaurants).

Review of operations

During the year ended 31 December 2019, Dragontail continued to deepen its wide and solid global circle of customers. The Company has also commenced strategic projects to strengthen its position in the industry, while presenting some first-of-a-kind solutions for the food and beverage segment. Among the Company's achievements in the past year, here are the most prominent:

- Total cash receipts for the 2019 financial year was A\$1.46m (US\$1.02m), representing growth of 41% over 2018.
- Outstanding growth in instalment base: In 2019, the installed base of the Algo and QT Camera grew approximately 10-fold compared to December 2018, reaching more than 2,000 stores globally.
- Significant progress made on integrations with the world's leading food-delivery aggregators - DoorDash Inc, Postmates Inc., Kin Shun Information Technologies PTE Limited and Drive Yello Pty Ltd. The solution presented by Dragontail is based on its unique ability to combine a customer's own driver fleets with drivers operated by aggregators. First USA store combining the Algo system with DoorDash drivers has gone live. These engagements cover North America and Asia-Pacific. This is the world-first full integration between a delivery aggregator platform and a store's kitchen operation and delivery system. Dragontail expects this first-of-a-kind functionality to significantly increase customer demand for the Algo and improve revenue per store over time.
- Dragontail was granted a patent for its QT Quality Control Camera in the USA, containing broad and comprehensive protection of the QT Camera's unique technology and work method.
- Nationwide rollout of the QT Camera was completed in more than 800 Domino's Pizza stores across Australia and New Zealand.
- Nationwide rollout of the Algo platform continued into all Pizza Hut stores in Australia (total of 250 stores) and across the UK (total of 400 stores), following the completion of a nationwide installations in Canada and Singapore.
- A strong testimony for the validity of Dragontail's technologies and the company's increasing presence in the market, is reaching the major milestone of processing over 6.5 million orders and over 11.5 million individual food items in December, up 10 fold from December 2018.
- A non-binding term sheet was signed to raise A\$20m, cornerstoned by a strategically important USA-based investor, Eldridge Industries. The funding will repay outstanding debt and support the planned major expansion into the USA and other markets. In order to provide the Company with sufficient liquidity until the closing of the A\$20m funding, expected in March 2020, the Company drew down on the US\$2m bridge loan already provided by Eldridge Industries.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Year ended	
		31 December	
		2019	2018
	Note	USD	
Revenues		769,247	1,074,676
Other income		504,879	79,502
		1,274,126	1,154,178
Expenses			
Research and development expenses	9	(3,475,044)	(3,110,081)
Selling and marketing expenses	10	(272,188)	(348,924)
Operating expenses	11	(1,794,215)	(1,902,627)
General and administrative expenses	12	(1,886,223)	(1,899,681)
Share based payment	7	(1,244,694)	(728,524)
Total operating expenses		(8,672,364)	(7,989,837)
<u>Operating loss</u>		(7,398,238)	(6,835,659)
Net finance expenses		(310,426)	(205,880)
<u>Loss before taxes on income</u>		(7,708,664)	(7,041,539)
Taxes on income		-	-
<u>Loss for the year</u>		(7,708,664)	(7,041,539)
Other comprehensive income (loss):			
<i>Amount that will not be reclassified subsequently to profit or loss:</i>			
Adjustments arising from translating financial statements from functional currency to presentation		(49,847)	(74,832)
Total comprehensive loss for the period		(7,758,511)	(7,116,371)
Loss per share (diluted and undiluted)	8	(3.10) cents	(3.17) cents

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statement of Financial Position

		As at 31 December	
		2019	2018
	Note	USD	
<u>Current Assets</u>			
Cash and cash equivalents	2	957,010	3,784,678
Trade receivables		104,509	376,854
Inventory		33,636	307,379
Other receivables		257,665	193,304
Total Current Assets		1,352,820	4,662,214
<u>Non-Current Assets</u>			
Other receivables		11,628	7,211
Property, Plant and Equipment	3	64,463	105,323
Total Non-Current Assets		76,091	112,534
Total Assets		1,428,911	4,774,748
<u>Current Liabilities</u>			
Trade payables		(205,819)	(279,974)
Other payables	4	(728,655)	(489,795)
Short – term loan		(3,014,852)	-
Total Current Liabilities		(3,949,326)	(769,769)
Net Assets/(Liabilities)			
		(2,520,415)	4,004,979
<u>Equity</u>			
Issued capital	5	18,688,069	18,348,386
Reserves	6	2,348,467	1,504,880
Retained earnings		(23,556,951)	(15,848,287)
Total Equity		(2,520,415)	4,004,979

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statement of Changes in Equity

	Share Capital	Foreign currency translation reserve	Share based payments reserve	Accumulated Losses	Total
	USD	USD	USD	USD	USD
Balance as at 1 January 2019	18,348,386	165,392	1,339,488	(15,848,287)	4,004,979
Comprehensive income					
Loss for the year	-	-	-	(7,708,664)	(7,708,664)
Total comprehensive loss for the year	-	-	-	(7,708,664)	(7,708,664)
Transactions with owners, in their capacity as owners, and other transfers					
Issue of share capital	339,683	-	(339,683)	-	-
Share based payment transactions	-	-	1,233,117	-	1,233,117
Foreign exchange movements	-	(49,847)	-	-	(49,847)
Transactions with owners and other transfers	339,683	(49,847)	893,434	-	1,183,270
Balance as at 31 December 2019	18,688,069	115,545	2,232,922	(23,556,951)	(2,520,415)
Balance as at 1 January 2018	13,758,407	240,224	899,062	(8,806,748)	6,090,945
Comprehensive income					
Loss for the year	-	-	-	(7,041,539)	(7,041,539)
Total comprehensive loss for the year	-	-	-	(7,041,539)	(7,041,539)
Transactions with owners, in their capacity as owners, and other transfers					
Issue of share capital	4,601,334	-	-	-	4,601,334
Share issue costs	(11,355)	-	-	-	(11,355)
Options issued	-	-	440,426	-	440,426
Foreign exchange movements	-	(74,832)	-	-	(74,832)
Transactions with owners and other transfers	4,589,979	(74,832)	440,426	-	4,955,573
Balance as at 31 December 2018	18,348,386	165,392	1,339,488	(15,848,287)	4,004,979

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

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Consolidated Statement of Cash Flows

	Year ended	
	31 December	
	2019	2018
	USD	
<u>Cash flows from operating activities</u>		
Receipts from customers	1,016,005	719,615
Payments to suppliers and employees	(6,755,455)	(7,667,687)
Interest expense	(199,103)	26,335
Net cash used in operating activities	(5,938,553)	(6,921,737)
<u>Cash flows from investing activities:</u>		
Payments for property, plant and equipment	(10,239)	(64,996)
Net cash used in investing activities	(10,239)	(64,996)
<u>Cash flows from financing activities:</u>		
Proceeds from issue of share capital	-	4,601,334
Proceeds from loan	3,014,852	-
Share issue costs	-	(11,355)
Net cash provided by financing activities	3,014,852	4,589,979
Exchange differences on balances of cash and cash equivalents	106,272	(222,985)
Decrease/Increase in cash and cash equivalents	(2,827,668)	(2,619,739)
Cash and cash equivalents at the beginning of the year	3,784,678	6,404,417
Cash and cash equivalents at the end of the year	957,010	3,784,678

The accompanying notes are an integral part of the consolidated financial statements.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The directors make a number of estimates and assumptions in preparing general purpose financial statements. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

Basis of preparation

The consolidated financial statements and notes of Dragontail Systems Limited (the “Company”), and its legal subsidiaries (the “Group”) as presented in this Appendix 4E are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Australian Accounting Standards are equivalent to International Financial Reporting Standards (“IFRS”). Compliance with Australian Accounting Standards ensures that these financial statements comply with International Financial Reporting Standards.

The following key judgement and estimate was made in preparing these financial statements:

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries that DTS Australia has the power to control the Group when it is exposed to, or has rights to, variable returns from its involvement with the Group and has the ability to affect those returns through its power to direct the activities of the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Group. For the year ended 31 December 2016, the Group had been restructured as part of an IPO process with DTS Australia being incorporated on 14 September 2016. During the prior year, DTS Australia acquired DTS Israel and its subsidiaries. The transaction represented a common control transaction and had been accounted for as a continuation of DTS Israel.

The consolidated results of the year ended 31 December 2019 reflect a full year of the Group and the comparative year results reflect DTS Israel plus DTS Australia from the date of incorporation.

Share based payment expenses

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instrument at the date at which they are granted when the fair value of goods and/or services cannot be determined. The fair value of options granted is measured using the Black-Scholes option pricing model. The model uses assumptions and estimates as inputs.

The fair value of performance shares is measured valued at the date of issue. The model uses assumption and estimates as input.

Presentation and Functional Currency

The consolidated financial statements are presented in United States Dollars (USD), which is DTS Israel’s functional and presentational currency.

The functional currency of DTS Australia is the Australian Dollar (AUD). The functional currency of DTS USA is the United States Dollar. The functional currency of DTS Canada is the Canadian Dollar (CAD).

Note 1

The consolidated financial statements include financial statements of DTS Israel and the following subsidiary:

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Equity Interest</i>	
		<i>2019</i>	<i>2018</i>
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%

Note 2

Cash and cash equivalents

	As of 31 December	
	2019	2018
	USD	
	957,010	3,784,678
Cash and cash equivalents	957,010	3,784,678

Note 3 – Property, Plant and Equipment

	Office equipment	Furniture	Leasehold improvements	Total
	USD			
<u>Cost</u>				
Balance as at 1 January 2019	141,949	25,453	16,217	183,619
Additions	-	10,239	-	10,239
Disposals	(9,977)	(81)	(1,960)	(12,018)
Balance as at 31 December 2019	131,972	35,611	14,257	181,840
<u>Accumulated Depreciation</u>				
Balance as at 1 January 2019	59,812	8,225	10,259	78,296
Depreciation for the year	34,690	6,787	3,942	45,419
Disposals	(5,875)	-	(463)	(6,338)
Balance as at 31 December 2019	88,627	15,012	13,738	117,377
<u>Property, Plant and Equipment as at 31 December 2019</u>	43,345	20,599	519	64,463
<u>Cost</u>				
Balance as at 1 January 2018	73,412	28,294	15,820	117,526
Additions	68,537	1,394	397	70,328
Disposals	-	(4,235)	-	(4,235)
Balance as at 31 December 2018	141,949	25,453	16,217	183,619
<u>Accumulated Depreciation</u>				
Balance as at 1 January 2018	34,712	3,635	4,418	42,765
Depreciation for the year	25,100	4,590	5,841	35,531
Balance as at 31 December 2018	59,812	8,225	10,259	78,296
<u>Property, Plant and Equipment as at 31 December 2018</u>	82,137	17,228	5,958	105,323

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Note 4 - Other payables

	As of December 31	
	2019	2018
	USD	
Payroll liabilities	(342,106)	(389,898)
Provision for annual leave	(190,891)	(99,897)
Deferred income	(80,490)	-
Interest payable	(115,168)	-
	(728,655)	(489,795)

Note 5 - Share Capital

Composition:	As at 31 December		As at 31 December	
	2019		2018	
	No	USD	No	USD
Ordinary shares	248,883,418	18,668,069	248,000,000	18,348,386

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

Movement in share capital:

	December 2019	
	No.	USD
Opening balances as at 1 January 2019	248,000,000	18,348,386
Exercise of employee Incentive Option Plan options	2,883,418	339,684
Selective buy-back of shares ¹	(2,000,000)	(1)
	248,883,418	18,688,069

Movement in share capital:

	December 2018	
	No.	USD
Opening balances as at 1 January 2018	213,500,000	13,758,407
Issue of shares – Placement ²	32,500,000	4,313,202
Issue of shares – Shares subject to buy-back ¹	2,000,000	288,132
Less: share issued cost	-	(11,355)
	248,000,000	18,348,386

- 1 On 20 June 2018, 2,000,000 shares were issue to Mark Bayliss under his Agreement for Appointment. On 30 November 2018 the Company announced that it had, under that same Agreement, exercised its right to buy back the shares for total consideration of \$1.00. Following shareholder approval at the Company's Annual General Meeting on 29 May 2019 the shares were bought back on 6 June 2019.
- 2 On 11 October 2018, 32,500,000 shares were issued at AUD\$0.187 per share under a placement.

Note 6 - Reserves

	As at 31 December	
	2019	2018
	USD	
Share based payment reserve ¹	2,232,922	1,339,488
Foreign currency translation reserve ²	115,545	165,392
Closing balance	2,348,467	1,504,880

¹ This reserve is used to record the value of equity benefits for options and performance shares issued for nil cash consideration.

² The foreign currency exchange reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

Note 7 – Options

On 1 August 2019, the Company issued 2 options pursuant to an Option Subscription Deed and in conjunction with the debt facility. Each option is exercisable into 5,000,000 Shares. 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 \$682,260 (approximately USD 467,075). The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs.

	Options	Options
Exercise Price (AUD)	\$0.22	\$0.25
Grant Date	1 August 2019	1 August 2019
Expiry Date	16 July 2021	16 July 2021
Risk Free Rate	0.73%	0.73%
Volatility	100%	100%
Total Value of Options (AUD)	\$353,527	\$328,733
Total Value of Options (USD)	\$247,858	\$230,475

On 15 May 2019, the Company issued 3,650,000 Employee Incentive Options exercisable at \$0.15 and 3,400,000 exercisable at \$0.00 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 \$1,093,152 (approximately USD 756,133) which will be expensed in accordance with the vesting periods of the options. The Company has recognised an expense of AUD \$904,968 (approximately USD 621,442) 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	Options
Exercise Price (AUD)	\$0.15	\$0.00
Grant Date	15 January 2019	15 January 2019
Expiry Date	15 November 2025	15 November 2025
Risk Free Rate	1.55%	1.55%
Volatility	100%	100%
Total Value of Options (AUD)	\$515,152	\$578,000
Total Value of Options (USD)	\$361,173	\$405,236

On 21 November 2019, the Company granted 1,225,000 Employee Incentive Options exercisable at \$0.15 and 1,700,000 exercisable at \$0.22 under the Employee Incentive Option Plan approved at the Annual General Meeting held on 21 May 2018. The options were issued on 14 January 2020. The issue of options is valued at the fair value on grant date. The options have a

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total fair value of AUD \$237,339 (approximately USD 161,628) which will be expensed in accordance with the vesting periods of the options. The Company has recognised an expense of AUD \$78,431 (approximately USD 53,788) 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	Options
Exercise Price (AUD)	\$0.15	\$0.22
Grant Date	21 November 2019	15 January 2019
Expiry Date	21 November 2026	15 November 2025
Risk Free Rate	0.77%	1.55%
Volatility	100%	100%
Total Value of Options (AUD)	\$111,849	\$125,490
Total Value of Options (USD)	\$78,417	87,981\$

Note 8 - Loss per share

Basic loss per share:

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

	As of December 31	
	2019	2018
	USD	
Loss attributable to ordinary equity holders	(7,708,664)	(7,041,539)
Balance as at 1 January/balance before transaction	248,000,000	213,500,000
Effect of shares issued for the acquisition (2,000,000 shares)*(208/365)	(1,139,726)	-
Effect of shares for exercise of options (2,266,723*193/365)	1,198,569	-
Effect of shares for exercise of options (50,000*175/365)	23,972	8,439,726
Effect of shares for exercise of options (566,695*148/365)	229,783	-
	248,312,598	221,939,726
Basic loss per share calculation (cents) (loss/weighted ave shares)	(3.10)	(3.17)

(i) Includes the effect of the transaction (under continuation accounting) for the purposes of the comparative earnings per share

Note 9 - Research and development expenses

	Year ended December 31	
	2019	2018
	USD	
Payroll and related expenses	2,462,853	2,000,602
Subcontractors	166,590	171,650
Research and product development	820,846	*608,486
Travel abroad	24,755	130,115
Training and recruitment	-	92,547
Other R&D expenses	-	106,681
	3,475,044	3,110,081

*Reclassified

Note 10 - Selling and marketing expenses

	Year ended December 31	
	2019	2018
	USD	
Payroll and related expenses	-	168,280
Subcontractors	-	2,127
Travel abroad	130,781	178,517
Advertising and marketing expenses	141,407	-
	<u>272,188</u>	<u>348,924</u>

Note 11 – Operating expenses

	Year ended December 31	
	2019	2018
	USD	
Payroll and related expenses	987,514	1,001,172
Software and program operating	434,174	*402,808
Subcontractors	147,714	108,507
Travel abroad	224,753	390,140
	<u>1,794,215</u>	<u>1,902,627</u>

*Reclassified

Note 12 - General and administrative expenses

	Year ended December 31	
	2019	2018
	USD	
Payroll and related expenses	824,660	627,113
Subcontractors	53,182	56,840
Professional services	270,181	346,061
Travel abroad	21,940	11,573
Office expenses	235,826	209,119
Rent	192,481	165,965
Director fees	100,069	136,929
Public company expenses	87,265	131,160
Depreciation	45,419	35,531
Bad debt expense	2,950	-
Training and recruitment	52,250	-
Others	-	179,390
	<u>1,886,223</u>	<u>1,899,681</u>

Note 13 - Segment information

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 organised into operating segments based on the services of the business units. The company recognises activities of software for customers in the field of QSR (quick service restaurant) as the only reporting segment.

	Segment revenue		Segment Expenses	
	2019	2018	2019	2018
	USD		USD	
Segment Revenue and Results				
Software research and development	769,247	1,074,676	(3,475,044)	(3,110,081)
Other income	504,879	79,502	-	-
Total for continuing operations	1,274,126	1,154,178	(3,475,044)	(3,110,081)
Finance expenses (net of finance income)	-	-	(310,426)	(205,880)
Selling and marketing expenses	-	-	(272,188)	(348,924)
General and administrative expenses	-	-	(1,886,223)	(1,899,681)
Operation expenses	-	-	(1,794,215)	(1,902,627)
Share based payment	-	-	(1,244,694)	(728,524)
Loss before tax (continuing operations)	1,274,126	1,154,178	(8,982,790)	(8,195,717)

	2019	2018
	USD	
Segment Assets		
Unallocated assets	1,428,911	4,774,748
Total assets	1,428,911	4,774,748

	2019	2018
	USD	
Segment Liabilities		
Unallocated liabilities	(3,949,326)	(769,759)
Total liabilities	(3,949,326)	(769,759)

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:

	Year ended December 31	
	2019	2018
	USD	
Israel	46,654	157,264
Australia	941,308	814,488
Canada	219,549	157,866
USA	66,615	24,560
Total revenues	1,274,126	1,154,178

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

	2019	2018
	USD	
Customer A	314,378	714,990
Customer B	68,276	130,032
Customer C	63,702	95,542
Total	446,356	940,564