



**DRAGONTAIL SYSTEMS LIMITED  
AND ITS CONTROLLED ENTITIES**

**ABN 63 614 800 136**

**CONSOLIDATED ANNUAL REPORT  
for the year ended 31 December 2019**

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## Corporate information

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This annual 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 4 to 13. 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

Level 24, 44 St George's Terrace  
Perth WA 6000

### Auditors

BDO Audit (WA) Pty Ltd  
38 Station St  
Subiaco WA 6008  
Telephone: +61 8 6382 4600

### Principal Office

Northbank Plaza, 22/69 Ann St  
Brisbane City, QLD 4000 Australia

### Share registry

Advanced Share Registry Limited  
110 Striling Highway  
Nedlands WA 6009  
Telephone: +61 8 9389 8033

### Israel Office

2 David Ben Gurion St  
BSR 1, Floor 8  
Ramat Gan, Tel Aviv  
5257334 Israel  
Telephone: +972 3 794 3362

### Exchange Listing

Dragontail Systems Limited is listed on the  
Australian Securities Exchange  
ASX Code: DTS

### Web Site

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

## **Chairman's Report**

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Dear Shareholder,

On behalf of the Board of Directors I am pleased to present Dragontail Systems Limited's Annual Report for the year ended 31 December 2019.

As Dragontail's chairman, I am proud to lead the Company through these exciting times, when the Company has entered some new and strategic paths. As always, Dragontail strives to be at the forefront of technology advancement and continue to develop innovative, breakthrough products that rely on state-of-the-art technology to provide its customers with the optimal tools for managing their business. As before, the Company continues to strengthen its ties with the industry's top players, as well as developing new relationships and markets. The Company has fascinating opportunities to realize its business potential, and with its determined, dedicated and talented team, I am confident in the Company's strength and success.

I would like to thank Mr. Ido Levanon, the Managing Director, for his tireless work and dedication for the Company's successes, and for the great achievements of the Company. Through the days when professional, personal and leadership resilience is required, I am glad that Mr. Levanon is leading the Company and heading it toward the conquest of new goals and other achievements to come.

On behalf of the Company and its managers, I would also like to thank and express my appreciation to the shareholders who have chosen us, believed in us and supported our growth. We have done and will continue to do everything we can to justify your choice in us.

**Udi (Yehuda) Shamai**  
Chairman

## **Managing Director's Address**

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As Managing Director of Dragontail Systems Limited, it is my pleasure to report to you on the Company's operations and achievements of 2019 and the goals that were set and accomplished.

2019 was a significant year for Dragontail, in which the Company has made strategic relationships with new partners, among other things, in line with the trend we are experiencing - bringing together third-party drivers. And so, in addition to meeting the Company's goals and deploying our products to entire markets around the world - such as Canada, Singapore, Australia, the UK - the Company has made sure to adapt to the sentiment of the era, creating another platform to grow its business and increase its annual revenue.

As of today, Dragontail's technologies are deployed around the world, in leading Quick Service Restaurant (QSR) chains, across entire markets, and providing proven and significant improvement in store operation and management. This fact speaks for itself and serves as the proven value add of our technologies.

2019 was also a year of scaling up our install base, as our flagship products, the Algo and the QT quality control AI camera installations went over 2,000, and thus grew approximately 10-fold compared to December 2018. Our innovative patented technology is unique, with no other competing technology available, as of today, and hence our ability to provide the competitive advantage to our customers.

Our teams, around the globe, are devoted and committed to continue to invest their best efforts and mind into making Dragontail's success, and providing our customers with the best operative and managerial tools for their business.

During 2019, Dragontail achieved several key milestones:

- Total cash receipts for the 2019 financial year of US\$1.02m (A\$1.46m), represents growth of 41% over 2018.
- 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.
- Collaborations with the world's leading (third party delivery operators) aggregators in multiple continents: Asia, Australia, North America and Europe – DoorDash, Postmates, Kin Shun, Yello, Stuart Delivery
- 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 and across the UK.
- December 2019 signified a major milestone of processing over 6.5 million orders and over 11.5 million individual food items by Dragontail's proprietary AI technology.
- A binding subscription agreement was signed for a two-stage investment of up to A\$19.25m via the issue of convertible preference shares.

I would like to take this opportunity and to thank the Board, management team, and the Dragontail team for their hard work and belief in the Company. I would also like to thank our investors for their trust and support in the Company and its great team. We appreciate the opportunity to be as great and creative as we can possibly be, and take responsibility to reach the goals the Company has set for 2020.

I hope you can join us at our Annual General Meeting on 29 May 2020.

**Ido Levanon**  
Managing Director

## 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 annual financial statements of the Group for the financial year ended 31 December 2019.

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

### **DTS Australia**

#### **Ido Levanon**

##### **Managing Director (appointed 14 September 2016)**

Ido Levanon has over 20 years of experience and a proven track record in the successful management and turnaround of various international companies such as Oro Alexander, Inc. Ido has acted as the CEO and a seed investor in several technology start-ups, and the Financial Planning Manager for Fujitsu USA (including managing its merger with International Computers Limited).

Ido also served as a captain in the Israeli Armed Forces for the artillery corps, commanding over 120 soldiers and officers.

Mr Levanon holds a Master of Business Administration (Magna Cum Laude) from San Diego University, and a Bachelor of Science (Mathematics and Computer Science) from Tel Aviv University. He has been part of DT Israel since its inception in 2013 as its CEO and one of the founding investors.

Interest in Shares                      Mr Levanon holds 22,975,830 ordinary shares in the Company

Interest in Options                    Mr Levanon holds no options in the Company.

Directorships held in  
other listed entities                  During the past three years Mr Levanon has not served as a Director of  
any other listed companies.

#### **Yehuda Shamai**

##### **Non-Executive Director (appointed 14 September 2016)**

Yehuda Shamai has established and managed large Israeli entities with international brands such as Pizza Hut, KFC and Domino's Pizza.

In the past, Mr Shamai served as Business Development Manager for Israel Corporation Ltd and as such has been involved in some of the largest mergers and acquisitions in Israel.

Mr Shamai has a vast knowledge of management software tools and e-payments and is involved as a director and investor in several existing companies and start-ups developing and marketing advanced physical and virtual payment solutions.

Interest in Shares                      Mr Shamai holds 35,051,763 ordinary shares in the Company

Interest in Options                    Mr Shamai holds no options in the Company.

Directorships held in  
other listed entities                  During the past three years Mr Shamai has not served as a Director of  
any other listed companies.

#### **Ron Zuckerman**

##### **Non-Executive Director (appointed 14 September 2016)**

Ron Zuckerman has been active as a tech entrepreneur and investor for most of the last 25 years.

Mr Zuckerman was one of the founders of Sapiens International, a software company he took public on NASDAQ in 1990 and which is currently trading with a market cap of over \$700m. Ron acted as Chairman and CEO of Sapiens from early 1995 until late 1999.

He was the founder and Executive Chairman of Precise Software Solutions, another software company he took public on NASDAQ in 2000, until its acquisition in late 2003 by VERITAS in a cash transaction valued at over \$600m.

## Directors' Report (continued)

### Ron Zuckerman (continued)

Mr Zuckerman was a founder, first round investor and a board member in GVT Holding SA, a large telephone operator in Brazil until its acquisition in late 2009 by The Vivendi Group of France for over \$4.7 Billion. Ron was an early investor and a board member at Wintegra Inc. which was acquired in 2010 by PMC Sierra for over \$200M.

In 2000, Mr Zuckerman was chosen by the World Economic Forum as leading one of the most influential tech ventures (i.e. Sapiens), together with such individuals as Masayoshi Son of SoftBank Group, Jerry Yang of Yahoo! and Michael Dell of Dell Computers.

Interest in Shares	Mr Zuckerman holds 8,433,020 ordinary shares in the Company.
Interest in Options	Mr Zuckerman holds no options in the Company.
Directorships held in other listed entities	During the past three years Mr Zuckerman has not served as a Director of any other listed companies.

### Adam Sierakowski

#### Non-Executive Director (appointed 14 September 2016)

Adam Sierakowski is a lawyer and a founding director of the legal firm Price Sierakowski. He has over 20 years of experience in legal practice, much of which he has spent as a corporate lawyer consulting and advising on a range of transactions to a variety of large private and listed entities.

Mr Sierakowski is also a co-founder and director of Perth based corporate advisory business, Trident Capital, where for 15 years he has advised a variety of large private and public companies on structuring their transactions and coordinating fundraisings both domestically and overseas.

Mr Sierakowski has held a number of directorships with ASX-listed companies, and he is a member of the Australian Institute of Company Directors and the Association of Mining and Exploration Companies.

Interest in Shares	Mr Sierakowski holds 5,587,593 ordinary shares in the Company.
Interest in Options	Mr Sierakowski holds 1,500,000 options in the Company.
Directorships held in other listed entities	During the past three years Mr Sierakowski has served as a Director of the following other listed companies:  Kinetiko Energy Limited (since 8 December 2010) Rision Limited (since 24 August 2016 to 23 May 2017. Appointed 8 June 2018) Coziron Resources Limited (since 21 October 2010) Connected IO Limited (since 3 December 2018)

### Stephen Hewitt-Dutton

#### Non-Executive Director (appointed 11 June 2018)

#### Company Secretary (appointed 10 May 2018)

Stephen is a qualified accountant, is an Associate Director of Trident Capital Pty Ltd and holds a Bachelor of Business from Curtin University. He has over 20 years of experience in corporate finance, accounting and company secretarial matters.

Before joining Trident Capital, Stephen was an Associate Director of Carmichael Corporate where he assisted clients by providing equity market, IPO and M&A advice and assistance. He has also held Financial Controller and Company Secretary positions for both public and private companies for in excess of 20 years.

Interest in Shares	Mr Hewitt-Dutton holds 154,631 ordinary shares in the Company.
Interest in Options	Mr Hewitt-Dutton holds no options in the Company.
Directorships held in other listed entities	During the past three years Mr Hewitt-Dutton has served as a Director of the following other listed companies:  Hughes Drilling Limited (appointed 16 August 2017, de-listed 27 June 2019)) Empire Oil & Gas NL (appointed 20 March 2018)

## Directors' Report (continued)

### Directors' meetings

The following table sets out the number of directors' meetings held during the financial year ended 31 December 2019, and the number of meetings attended by each director (while they were a director).

Directors	Board of Directors	
	Eligible to Attend	Attended
Yehuda Shamaï	6	6
Ido Levanon	6	6
Ron Zuckerman	6	2
Adam Sierakowski	6	6
Stephen Hewitt-Dutton	6	6

The Board of Directors also approved 13 circular resolutions during the year ended 31 December 2019 which were signed by all Directors of the Company. The audit, compliance and corporate governance committee is performed by the Board of Directors.

### 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

#### 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 a few strategic projects which will strengthen its position in the industry, while presenting some first-of-a-kind solutions for the F&B segment. Among the Company's greatest achievements in the past year, here are the most prominent:
- Total cash receipts for the 2019 financial year was US\$1.02m (A\$1.46m) 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.



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

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### *Operations (continued)*

- 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.
- On March 23, 2020 the company announced that a binding subscription agreement has been entered into for a two-stage investment of up to A\$19.25m via the issue of convertible preference shares.

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

Other than matters described above, there were no other significant changes in the state of affairs of the Group.

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

### Binding Subscription Agreement

On March 23, 2020 the company announced that a binding subscription agreement has been entered into for a two-stage investment of up to A\$19.25m via the issue of convertible preference shares.

- The raise is led by strategically important US-based investors, Eldridge Industries (together with its affiliates, "Eldridge") and Goudy Park Capital LP (together with its affiliates, "Goudy").
- Stage 1 of the funding will raise A\$12m comprised of Eldridge's investment of A\$5.25m, Goudy's investment of A\$4.75m and a A\$2m investment by Alceon Liquid Strategies Pty Ltd as trustee of the Alceon High Conviction Absolute Return Fund ("Alceon").
- The issue price of the convertible preference shares is A\$0.13.
- The Company will use the funds to repay its existing A\$4.3m corporate loan with Alceon and the US\$2m bridge loan provided by Eldridge, thus discharging all third-party borrowings. The funding will also support the Company's operations, including its planned expansion into the US and its ongoing growth in other markets.
- The agreement was entered into after completion of a confirmatory due diligence by the investors, and is subject to shareholder approval.

### COVID-19 Pandemic

The World Health Organisation announced that the new coronavirus disease (COVID-19) had become a pandemic on 11 March 2020. The Group has developed policies and procedures to address the health and wellbeing of employees. The timing, extent of the impact and recovery from COVID-19 on our employees, customers and suppliers is unknown at this stage, but it may have an impact on activities and potentially a post balance date impact.

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.

### **Future developments and expected results of operations**

The Group will continue the development and commercialise of the Algo System and the QT Camera for customers in the field of QSR (Quick Service Restaurants).

### **Dividends**

No amounts have been paid or declared by way of dividend by the Group since the end of the previous financial year and the Directors do not recommend the payment of any dividend.

### **Indemnification of officers and auditors**

The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Remuneration report (audited)

The directors present the Dragontail Systems Limited 2019 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

Key management personnel covered in this report		
Non-executive directors	Executive directors	Other Key Management Personnel
Yehuda Shamai <sup>1</sup> Ron Zuckerman <sup>1</sup> Adam Sierakowski <sup>1</sup> Stephen Hewitt-Dutton <sup>2</sup>	Ido Levanaon <sup>1</sup>	Guy Brandwin

## Remuneration Policy and link to company performance

The board policy is to remunerate non-executive directors at a level which provides the company with the ability to attract and retain directors with the experience and qualifications appropriate to the development strategy of the company's Intellectual Property. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. This was set at AUD\$300,000 per annum by the Directors prior to the first Annual General Meeting. During the year, the Chairman and non-executive director fees were AUD\$60,000 and AUD\$36,000 per annum respectively.

Non-executive directors' fees are not linked to the performance of the company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

The board policy is to remunerate executive directors at a level that provides the company with the ability to attract and retain executives with the experience and qualification appropriate to the development strategy of the company's Intellectual Property. During the financial year, the Group did not employ the use of remuneration consultants.

## Executive Remuneration

The following table discloses the contractual arrangements with the Group's executive Key Management Personnel.

COMPONENT	Managing Director – Ido Levanaon
Fixed remuneration	AUD\$36,000 pa in director's fees and ILS 374,013 pa in wages (USD 104,933) total of USD 129,967.
Contract duration	No fixed term
Termination notice by the individual/company	30 days
Other entitlements	18 days annual leave per annum
COMPONENT	Strategic Board Consultant (formerly Executive Vice President of Strategy and Operations) – Guy Brandwin
Fixed remuneration	ILS120,821 (plus value added tax at the applicable rate) per annum (USD 34,015).
Contract duration	No fixed term
Termination notice by the individual/company	30 days
Other entitlements	None

## Relationship between the remuneration policy and company performance

Refer below in this remuneration report for details on Performance Shares issued during the year.

<sup>1</sup> Appointed 14 September 2016

<sup>2</sup> Appointed 11 June 2018

## Remuneration report (audited) (continued)

### Remuneration expense details for the year ended 31 December 2019

The directors incurred the following amounts as compensation for their services as directors and executives of the Group during the year:

2019	Short-term employee benefits			Post-employment benefits	Share-based payment	Total \$USD	% Consisting of share-based payments \$USD
	Salary & fees \$USD	Bonus \$USD	Other \$USD	Superannuation \$USD	Shares, options & rights \$USD		
Directors							
Yehuda Shamai <sup>1</sup>	25,034	-	-	-	-	25,034	-
Ron Zuckerman <sup>1</sup>	25,034	-	-	-	-	25,034	-
Adam Sierakowski <sup>1</sup>	27,287	-	-	-	-	27,287	-
Stephen Hewitt-Dutton <sup>1</sup>	25,034	-	-	-	-	25,034	-
Executives							
Ido Levanon <sup>1, 2</sup>	129,967	-	-	-	-	129,967	-
Guy Brandwin	34,015	-	-	-	-	34,015	-
Total	266,371	-	-	-	-	266,371	-

2018	Short-term employee benefits			Post-employment benefits	Share-based payment	Total \$USD	% Consisting of share-based payments \$USD
	Salary & fees \$USD	Bonus \$USD	Other \$USD	Superannuation \$USD	Shares, options & rights \$USD		
Directors							
Yehuda Shamai <sup>3</sup>	26,910	-	-	-	-	26,910	-
Ron Zuckerman <sup>3</sup>	26,910	-	-	-	-	26,910	-
Adam Sierakowski <sup>3</sup>	39,991	-	-	-	64,116	104,107	61%
Stephen Hewitt-Dutton <sup>4</sup>	12,708	-	-	-	-	12,708	-
Paul Steele <sup>5</sup>	12,147	-	-	-	19,126	31,273	61%
Mark Bayliss <sup>6</sup>	28,282				288,098 <sup>7</sup>	316,380	91%
Executives							
Ido Levanon <sup>2,3</sup>	100,142	-	-	-	-	100,142	-
Guy Brandwin	102,086	-	-	-	-	102,086	-
Total	349,176	-	-	-	371,340	720,516	52%

<sup>1</sup> The directors were Directors of DTS Australia during the whole 2019 financial year.

<sup>2</sup> Mr Levanon was an executive of DTS Israel during the whole financial year.

<sup>3</sup> Mr Shamai, Zuckerman, Sierakowski and Levanon were Directors of DTS Australia during the whole 2018 financial year.

<sup>4</sup> Mr Hewitt-Dutton was appointed on 11 June 2018.

<sup>5</sup> Mr Steele resigned on 7 March 2018.

<sup>6</sup> Mr Bayliss resigned 10 June 2018.

<sup>7</sup> During the 2018 year 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 shares was subject to shareholder approval which was obtained at the Annual General Meeting. On 30 November 2018 the company announced that it had, under the same Agreement, exercised its right to buy back the shares for total consideration of \$1.00. Shareholder approval of the selective buy-back was obtained at the 2019 Annual General Meeting and the shares bought back on 6 June 2019.

## Remuneration report (audited) (continued)

### Securities received that are not performance-related

No members of key management personnel are entitled to receive securities that are not performance-based as part of their remuneration package.

### Options granted as remuneration

During the 31 December 2019 financial year, there were no options issued to KMP as remuneration.

### Description of options issued as remuneration

Details of the options granted as remuneration to those key management personnel listed in the previous table are as follows:

Grant date	Issuer	Entitlement on exercise	Dates exercisable by	Exercise price (AUD)	Value per option at grant date (USD)	Amount paid/payable by recipient
20 June 2018	Dragontail Systems Limited	1:1 ordinary share in Dragontail Systems Limited	20 June 2021	\$0.40	\$0.043	\$0.00

On 20 June 2018, 1,500,000 options vesting immediately were issued pursuant to a mandate for the provision of corporate advisory services. Option values at grant date were determined using the Black-Scholes method as the service received was not able to be reliably measured (note 15).

### Performance shares granted as remuneration

Group KMP	Balance at 1 January 2019 (No.)	Grant date	Number	Value <sup>1</sup>	Exercised	Lapsed	Balance at the end of the year	
							Vested	Non-vested
Ido Levanon	8,333,334	12 Dec 16	8,333,334	-	-	-	-	8,333,334
Guy Brandwin	8,333,333	12 Dec 16	8,333,333	-	-	-	-	8,333,333
Yehuda Shamai	8,333,333	12 Dec 16	8,333,333	-	-	-	-	8,333,333
<b>Total</b>	<b>25,000,000</b>		<b>25,000,000</b>	-	-	-	-	<b>25,000,000</b>

<sup>1</sup> On 12 December 2016, the shareholders of Dragontail Systems Limited approved the issue of a total of 25,000,000 performance shares to Ido Levanon, Guy Brandwin and Yehuda Shamai. These Performance Shares were to 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 was not satisfied on or before 31 December 2019, and accordingly 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.

## Remuneration report (audited) (continued)

### Key Management Personnel shareholdings

The number of ordinary shares in Dragontail Systems Limited held by each key management personnel of the Group during the financial year is as follows:

	Balance at 1 January 2019 or on date of appointment	Granted as remuneration during the year	Issued on exercise of options during the year	Net other changes during the year	Balance at 31 December 2019 or on date of resignation
<b>Ordinary shares</b>					
<b>2019 Directors</b>					
Ido Levanon	22,975,830	-	-	-	22,975,830
Yehuda Shamai	35,051,763	-	-	-	35,051,763
Ron Zuckerman	8,433,020	-	-	-	8,433,020
Adam Sierakowski	5,937,593	-	-	(350,000) <sup>1</sup>	5,587,593
Stephen Hewitt-Dutton	45,541	-	-	109,090 <sup>2</sup>	154,631
<b>Executives</b>					
Guy Brandwin	14,162,810	-	-	-	14,162,810
<b>Total</b>	<b>86,606,557</b>	<b>-</b>	<b>-</b>	<b>(240,910)</b>	<b>86,365,647</b>

<sup>1</sup>During the year, 350,000 shares were sold on-market by Adam Sierakowski.

<sup>2</sup>During the year, 109,090 shares were acquired on-market by Stephen Hewitt-Dutton.

The number of options in Dragontail Systems Limited held by each key management personnel of the Group during the financial year is as follows:

	Balance at 1 January 2019 or on date of appointment	Granted as remuneration during the year	Net other changes during the year	Number of options vested at 31 December 2019 or on date of resignation
<b>Options</b>				
<b>2019</b>				
Ido Levanon	-	-	-	-
Yehuda Shamai	-	-	-	-
Ron Zuckerman	-	-	-	-
Adam Sierakowski	1,500,000	-	-	1,500,000
Stephen Hewitt-Dutton	-	-	-	-
<b>Executives</b>				
Guy Brandwin	-	-	-	-
<b>Total</b>	<b>1,500,000</b>	<b>-</b>	<b>-</b>	<b>1,500,000</b>

### Other equity-related Key Management Personnel transactions

There have been no other transactions involving equity instruments apart from those describe in the tables above relating to options, rights and shareholdings.

### Other transactions with Key Management Personnel and/or their related parties

There were no other transactions conducted between the Group and Key Management Personnel or their related parties, apart from those disclosed above and below, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favorable than those reasonably expected under arm's length dealings with unrelated persons.

#### *Company secretarial and accounting services.*

During the year, Trident Management Services Pty Ltd ("Trident Management Services"), provided the Company with accounting and company secretarial services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. Mr Sierakowski is a Director of Trident Management Services. The amount incurred for the year ended 31 December 2019 was USD \$86,206 (2018: USD \$77,636). As at 31 December 2019 USD \$6,757 (2018: USD \$7,674) was payable to Trident Management Services.

## **Remuneration report (audited) (continued)**

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### **Other transactions with Key Management Personnel and/or their related parties (continued)**

#### *Corporate advisory and capital raising services*

During the year, Trident Capital Pty Ltd (“Trident Capital”), provided the Company with corporate advisory services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. Mr Sierakowski is a Director of Trident Capital. The amount incurred for the year ended 31 December 2019 was USD \$24,339 (2018: USD \$14,949). As at 31 December 2019 USD \$ 4,589 (2018: USD \$ 4,934) was payable to Trident Capital.

#### *Legal fees*

During the year, Price Sierakowski Corporate (“Price Sierakowski”) provided the Company with legal services. Mr Sierakowski is a Director of Price Sierakowski. The amount incurred for the year ended 31 December 2019 was \$2,253 (2018: USD \$6,811). As at 31 December 2019 \$nil (2018: \$nil) was payable to Price Sierakowski.

#### *Supply agreement*

DTS Israel had entered into an agreement with Tabasco Holdings Ltd (Tabasco) – the owner of the Pizza Hut Israel chain – with respect to certain Pizza Hut establishments in Israel. Tabasco is a related party of the Company as it is controlled by Yehuda Shamai, who is a Non-Executive Director of the Company. The material terms of the agreement between the Company and Tabasco are as follows:

- for a period of 10 years from the first installation (i.e. February 2014) (10 Year Period), for the first 25 Pizza Hut Israel locations for which Tabasco receives services from the Company, Tabasco is not required to pay any initial set up fees and the Company provides the ongoing services at cost; and
- for the 26th to 100th Pizza Hut Israel locations, for the 10 Year Period, Tabasco pays a reduced initial set up fee (to be determined by the parties at the relevant time), and receives a 75% discount on the monthly fees, based on the Company's price list.

The discounted rates will cease to apply at the end of the 10 Year Period.

The Company notes that it negotiated the terms of the agreement on an arm's length basis and will continue to ensure that all future dealings with Tabasco are similarly entered into and undertaken on an arm's length basis.

For the year-ended 31 December 2019 there was USD \$12,130 (2018: USD \$11,055) in revenue derived from Tabasco Holdings Ltd.

### **End of audited Remuneration Report**

## **Voting and comments made at the Company's Annual General Meeting**

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The Company received 100% of votes, of those shareholders who exercised their right to vote, in favour of the remuneration report for the 2018 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

## **Proceedings on behalf of the Company**

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## **Environmental regulation and performance**

The Group's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State or Territory. The policy is to comply with, or exceed, its environmental obligations in each jurisdiction in which it operates. No known environmental breaches have occurred.

## **Non-audit services**

The total value of non-audit services provided by related practices of BDO Audit (WA) Pty Ltd in respect to the Australian EMDG export grant consulting is USD \$nil (2018: USD \$625). The total value of non-audit services provided by related practices of BDO Audit (WA) Pty Ltd in respect of tax consulting services was USD \$ 6,479 (2018: USD \$5,897).

The board of directors have considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services provided by related practice of the auditor did not compromise the auditor independence requirements under the corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board to enquire they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

## **Auditor's independence declaration**

The auditor's independence declaration is included on page 14 of the annual report.

Signed in accordance with a resolution of the directors dated 31<sup>st</sup> day of March 2020.



**Ido Levanon**  
**Managing Director**

31<sup>st</sup> day March 2020

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

As lead auditor of Dragontail Systems Limited for the year ended 31 December 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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, 31 March 2020



**Consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2019**

	Note	Year ended 31 December	
		2019	2018
		USD	
Revenues	5	769,247	1,074,676
Other income	5	504,879	79,502
<b>Total income</b>		<b>1,274,126</b>	<b>1,154,178</b>
<b>Expenses</b>			
Research and development expenses	6	(3,475,044)	(3,110,081)
Selling and marketing expenses	6	(272,188)	(348,924)
Operational expenses	6	(1,794,215)	(1,902,627)
General and administrative expenses	6	(1,886,223)	(1,899,681)
Share based payments	16	(765,906)	(728,524)
<b>Total operating expenses</b>		<b>(8,193,576)</b>	<b>(7,989,837)</b>
<b>Operating loss</b>		<b>(6,919,450)</b>	<b>(6,835,659)</b>
Net finance expenses	6	(777,637)	(205,880)
<b>Loss before income tax</b>		<b>(7,697,087)</b>	<b>(7,041,539)</b>
Income tax expense		-	-
<b>Loss for the year after income tax</b>		<b>(7,697,087)</b>	<b>(7,041,539)</b>
		-	-
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Foreign currency translation differences		(61,424)	(74,832)
<b>Total items that may be reclassified to profit or loss</b>		<b>(61,424)</b>	<b>(74,832)</b>
<b>Other comprehensive profit / (loss) for the year</b>		<b>(61,424)</b>	<b>(74,832)</b>
<b>Total comprehensive profit / (loss) for the year attributable to the members of Dragontail Systems Limited</b>		<b>(7,758,511)</b>	<b>(7,116,371)</b>
Loss per share (basic and diluted) (cents)	17	(3.10)	(3.17)

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 31 December 2019**

		As at 31 December	
		2019	2018
	Note	USD	
<b><u>Current Assets</u></b>			
Cash and cash equivalents	18	957,010	3,784,678
Trade receivables	9	104,509	376,854
Inventories	10	33,636	307,379
Other receivables	9	257,665	193,303
<b>Total Current Assets</b>		<b>1,352,820</b>	<b>4,662,214</b>
<b><u>Non Current Assets</u></b>			
Other receivables	9	11,628	7,211
Property, Plant and Equipment	11	64,463	105,323
<b>Total Non-Current Assets</b>		<b>76,091</b>	<b>112,534</b>
<b>Total Assets</b>		<b>1,428,911</b>	<b>4,774,748</b>
<b><u>Current Liabilities</u></b>			
Trade payables	12	(205,819)	(279,974)
Other payables	12	(728,655)	(489,795)
Borrowings	13	(3,014,852)	-
<b>Total Current Liabilities</b>		<b>(3,949,326)</b>	<b>(769,769)</b>
<b>Net Assets</b>		<b>(2,520,415)</b>	<b>4,004,979</b>
<b><u>Equity</u></b>			
Issued capital	14	18,688,069	18,348,386
Reserves	15	2,336,890	1,504,880
Retained losses		(23,545,374)	(15,848,287)
<b>Total Equity</b>		<b>(2,520,415)</b>	<b>4,004,979</b>

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

**Consolidated statement of changes in equity for the financial year ended 31 December 2019**

	Share Capital	Foreign currency translation reserve	Share based payments reserve	Accumulated Losses	Total
	USD	USD	USD	USD	USD
<b>Balance as at 1 January 2019</b>	<b>18,348,386</b>	<b>165,392</b>	<b>1,339,488</b>	<b>(15,848,287)</b>	<b>4,004,979</b>
<b>Comprehensive income</b>					
Loss for the year	-	-	-	(7,697,087)	(7,697,087)
Foreign exchange movements	-	(61,424)	-	-	(61,424)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(61,424)</b>	<b>-</b>	<b>(7,697,087)</b>	<b>(7,758,511)</b>
<b>Transactions with owners, in their capacity as owners, and other transfers</b>					
Issue of share capital	339,683	-	(339,683)	-	-
Share based payment transactions	-	-	1,233,117	-	1,233,117
<b>Transactions with owners and other transfers</b>	<b>339,683</b>	<b>-</b>	<b>893,434</b>	<b>-</b>	<b>1,233,117</b>
<b>Balance as at 31 December 2019</b>	<b>18,688,069</b>	<b>103,968</b>	<b>2,232,922</b>	<b>(23,545,374)</b>	<b>(2,520,415)</b>
<b>Balance as 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>
<b>Comprehensive income</b>					
Loss for the year	-	-	-	(7,041,539)	(7,041,539)
Foreign exchange movements	-	(74,832)	-	-	(74,832)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(74,832)</b>	<b>-</b>	<b>(7,041,539)</b>	<b>(7,116,371)</b>
<b>Transactions with owners, in their capacity as owners, and other transfers</b>					
Issue of share capital	4,601,334	-	-	-	4,601,334
Share issue costs	(11,355)	-	-	-	(11,355)
Options issued	-	-	440,426	-	440,426
<b>Transactions with owners and other transfers</b>	<b>4,589,979</b>	<b>-</b>	<b>440,426</b>	<b>-</b>	<b>5,030,405</b>
<b>Balance as at 31 December 2018</b>	<b>18,348,386</b>	<b>165,392</b>	<b>1,339,488</b>	<b>(15,848,287)</b>	<b>4,004,979</b>

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

**Notes to the consolidated financial statements**

**Consolidated statement of cash flows for the financial year ended 31 December 2019**

		Year ended 31 December	
	Note	2019	2018
USD			
<b><u>Cash flows from operating activities</u></b>			
Receipts from customers		1,016,005	719,615
Receipt from ATO for R&D incentive		512,495	79,502
Payments to suppliers and employees		(7,267,950)	(7,747,189)
Interest received		8,838	26,335
<b>Net cash used in operating activities</b>	18	(5,730,612)	(6,921,737)
<b><u>Cash flows from investing activities:</u></b>			
Payments for property, plant and equipment		(10,239)	(64,996)
<b>Net cash used in investing activities</b>		(10,239)	(64,996)
<b><u>Cash flows from financing activities:</u></b>			
Proceeds from issue of share capital		-	4,601,334
Proceeds from loan		3,014,852	(11,355)
Interest expense		(207,941)	-
<b>Net cash provided by financing activities</b>		2,806,911	4,589,979
Exchange differences on balances of cash and cash equivalents		106,272	(222,985)
<b>Decrease/Increase in cash and cash equivalents</b>		(2,827,668)	(2,619,739)
Cash and cash equivalents at the beginning of the year		3,784,678	6,404,417
<b>Cash and cash equivalents at the end of the year</b>	18	957,010	3,784,678

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

## Notes to the consolidated financial statements

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### 1. REPORTING ENTITY

This annual 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. NEW AND AMENDED STANDARDS FOR APPLICATION IN CURRENT OR FUTURE PERIODS

#### (a) *New standard adopted by the Group*

A new standard became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standard:

- AASB 16 *Leases* (“AASB 16”)
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

#### 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 expense 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 and 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. The only exceptions are short-term and low-value leases.

The adoption of AASB 16 did not result in a material impact on the group as all the leases where the group is a lessee met the exemption for low-value or short-term leases.

#### AASB Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation addresses (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

The adoption of this Interpretation has had no impact on the current or previous reporting period and as such there have been no adjustments to the opening balance of accumulated losses.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements include the financial statements of Dragontail Systems Limited (the “Company”), and its legal subsidiaries (the “Group”). These general purpose financial statements 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. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

## Notes to the consolidated financial statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Except for the cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

These financial statements are presented in United States dollars and the controlling entity, DTS Australia, has a functional currency of 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).

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Group considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

#### b) Plant and equipment

Plant and equipment assets are measured at cost plus the direct costs of the purchase and less accumulated depreciation.

Depreciation is calculated by the straight-line method at annual rates considered to be sufficient to depreciate the assets over their estimated useful life:

- Computers 3 years
- Furniture 6 to 16 years
- Leasehold improvements 10 years

#### c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - at cost of purchase using the "first-in, first-out" method.

Work in progress and finished goods - on the basis of average costs including materials, labour and other direct and indirect manufacturing costs based on normal capacity.

#### d) Financial instruments

The impairment of financial assets using the expected credit loss model applies now to the Group's trade receivables. For contract assets arising from AASB 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit loss as these items do not have a significant financing component.

##### *Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### *Classification and initial measurement of financial assets*

Financial assets are classified according to their business model and the characteristics of their contractual cash flows and are initially measured at fair value adjusted for transaction costs (where applicable).

## Notes to the consolidated financial statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d) Financial instruments (continued)

##### *Subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

##### *Financial assets at amortised cost*

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and most other receivables fall into this category of financial instruments.

##### *Impairment of financial assets*

AASB 9's forward looking impairment model applies to Group's investments at amortised cost and debt instruments at FVTOCI. The application of the impairment model depends on whether there has been a significant increase in credit risk.

##### *Trade and other receivables and contract assets*

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.

#### e) Impairment of other tangible and intangible assets

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognised in profit or loss.

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## Notes to the consolidated financial statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### e) Impairment of other tangible and intangible assets (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### f) Employee benefit liabilities

##### *Short-term employee benefits*

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

##### *Post-employment benefits*

The Company has defined contribution plans pursuant to section 14 to the Severance Pay Law in Israel under which the Company pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognised as an expense when contributed concurrently with performance of the employee's services.



## Notes to the consolidated financial statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### g) Income Tax

Current or deferred taxes are recognised in profit or loss, except to the extent that they relate to items which are recognised in other comprehensive income or equity.

##### *Current taxes*

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

##### *Deferred taxes*

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilised. Temporary differences for which deferred tax assets had not been recognised are reviewed at each reporting date and a respective deferred tax asset is recognised to the extent that their utilisation is probable.

##### *Current tax*

Current tax is calculated by reference to the amount of income taxes payable to or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### *Deferred tax*

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequence that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the company intends to settle its current tax assets and liabilities on a net basis.

##### *Current and deferred tax for the period*

## Notes to the consolidated financial statements

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Current and deferred tax is recognised as an expense or income in the statement of profit or loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### **h) Intangibles: Research and development costs**

Research costs are recognised as an expense in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognised only when all the following criteria are met:

- a) If the Company can demonstrate it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- b) The Company intends to complete the intangible asset and use or sell it;
- c) There is an ability to use or sell the intangible asset;
- d) It can be demonstrated how the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the intangible asset; and
- f) The ability to measure reliably the respective expenditure asset during its development.

The asset is measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. The asset is amortised over its useful life. Testing of impairment is performed annually over the period of the development project.

As of 31 December 2019, the Company's management estimates that the aggregate conditions for capitalising development costs to intangible asset were not met.

### **i) Research and Development tax return**

Companies within the group may be entitled to claim special tax deductions for investments in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The group accounts for such allowances as other income when received,

### **j) Share-based payments**

Equity-settled share-based payments are measured at fair value of the equity instrument at the grant date. Fair value for options is measured by the use of the Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for

## Notes to the consolidated financial statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share, refer Note 17.

#### k) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the loans and borrowings using the effective interest method.

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

#### l) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

#### m) Revenue recognition

The Group has applied AASB 15. The details of accounting policies are as stated below.

##### A. Significant accounting policy

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

Service revenue was recognised when the fees in respect of services rendered were earned, usually when services had been provided to customers or as per terms and conditions of service contracts.

##### B. Nature of goods and services

The following is a description of the principal activities from which the Group generates its revenue.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Sale of hardware	Revenue is recognised over time where the customer has legal title to the product, the product being constructed has no alternative uses and the Group is entitled to be reimbursed by the customer for costs incurred to date including a reasonable profit margin to construct the specialised equipment if the customer cancels the contract other than for breach. Consideration is highly probable of being received.
Installation services	Some contracts include multiple deliverables, such as the provision and installation and commission of hardware and software. The Company recognises revenues from installation of the software after the installation is complete.  Customers usually pay according to the agreed invoicing schedule or contract milestones. If the goods and services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the goods and services rendered, a contract liability is recognised.
Software, subscription and servicing	The Group provides software subscription and servicing fees, which represent a separate performance obligation under contractual terms. For these services, which is billed based on monthly basis, the Group recognises revenue as the services are performed.

## Notes to the consolidated financial statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### k) Revenue recognition (continued)

##### C. Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition.

	31 Dec 2019	31 Dec 2018
	\$	\$
<b>Primary geographical markets</b>		
Australia	436,429	734,987
Israel	46,654	27,232
USA	66,615	24,559
Canada	219,549	157,866
Singapore	-	130,032
<b>TOTAL</b>	<b>769,247</b>	<b>1,074,676</b>
<b>Major products/service lines</b>		
Sale of hardware	39,383	796,559
Installation and training	208,241	49,752
Software and servicing	521,623	228,365
<b>TOTAL</b>	<b>769,247</b>	<b>1,074,676</b>
<b>Revenue recognition</b>		
At a point in time	208,241	49,752
Over time	561,006	1,024,924
<b>TOTAL</b>	<b>769,247</b>	<b>1,074,676</b>

#### l) Earnings/(loss) per share

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

## Notes to the consolidated financial statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### m) 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.

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

##### *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.

##### *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 granted, multiplied by the share price at date of grant. As at 31 December 2019, 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 31 December 2019, no expense has been recognised in respect of these performance shares as a 0% probability has been assigned to meeting the milestone.

##### *Taxation*

Balances disclosed in the financial statements and the notes related to taxation, are based on the best estimates of directors, pending further assessment in the next financial year.

##### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

##### *Revenue*

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the sale of goods or provision of services to entities outside the Group. The Group recognises revenue from contracts with customers in accordance with the recognition of the completion of performance obligations under the contract. Where a contract includes an element of a warranty obligation, the revenue attributable to this warranty obligation is recognised evenly over the period for which the obligation exists.

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium. The revenue is recognised over the time the interest is earned.

## Notes to the consolidated financial statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### n) Foreign Currency

##### Functional and presentation currency

Items included in the Financial Statements of each of the Company entities are measured using the currency of the primary economic environment in which the Entity operates ('the functional currency'). The Consolidated Financial Statements are presented in United States dollars (USD), which is Dragontail Systems Limited's presentation currency.

##### Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined.

##### Translation of Foreign Operations

The Statement of Profit or Loss and other Comprehensive Income is translated at the average exchange rates for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation will be recognised in the Statement of Profit or Loss and Other Comprehensive Income.

#### o) Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Group incurred a loss for year ended 31 December 2019 of \$7,697,087 (2018: \$7,041,539), a working capital deficiency of \$2,596,506 (2018: working capital surplus of \$3,892,445), net cash outflows from operating activities of \$5,730,612 (2018: \$6,921,737) and had cash on hand of \$957,010 (2018: \$3,784,678).

The World Health Organisation announced that the new coronavirus disease (COVID-19) had become a pandemic on 11 March 2020. The Group has developed policies and procedures to address the health and wellbeing of employees. The timing, extent of the impact and recovery from COVID-19 on our employees, customers and suppliers is unknown at this stage, but it may have an impact on activities and potentially a post balance date impact.

The ability of the Group to continue as a going concern is dependent on achieving its planned sales growth and securing additional funding through either equity, debt or receipts, or a combination of all, to continue to fund its operational and technology development activities. These conditions indicate a material uncertainty that may cast a doubt about the Group'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 that there are sufficient funds available to continue to meet the Group's working capital requirements as at the date of this report and that sufficient funds will be available to finance the operations of the Group for the following reasons:

- The Directors of Dragontail Systems Limited have assessed the likely cash flow for the 12 month period from the date of signing this annual report and its impact on the Group and believe there will be sufficient funds to meet the Group's working capital requirements as at the date of this report.
- The Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements and has entered into a binding subscription agreement for a two-stage investment of up to A\$19.25M via the issue of convertible preference shares, which is subject to shareholder approval.
- The Directors of Dragontail have reason to believe that in addition to the cash flow currently available, additional funds from receipts are expected through the sale of the Group's products and services.
- The directors of Dragontail believe that in the event needed, the level of expenditure can be managed.

## Notes to the consolidated financial statements

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 and that 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.

The directors plan to continue the Group's operations on the basis as outlined above and believe there will be sufficient funds for the Group to meet its obligations and liabilities for at least twelve months from the date of this report.

### 4. CONTROLLED ENTITIES

The consolidated financial statements include financial statements of Dragontail Systems Limited and the following subsidiaries:

Name	Country of Incorporation	% Equity Interest	
		2019	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.

### 5. REVENUE & OTHER INCOME

	2019 USD	2018 USD
Revenue from contracts with customers <sup>1</sup>	769,247	1,074,676
	<b>769,247</b>	<b>1,074,676</b>
Other Income - Research and development refund <sup>2</sup>	504,879	79,502
	<b>504,879</b>	<b>79,502</b>

<sup>1</sup>Refer to Note 3(k) for information relating to the revenue recognised during the year.

<sup>2</sup>During the year, the Company received USD \$504,879 from research and development tax refund from the Australian Tax Office.

## Notes to the consolidated financial statements

### 6. EXPENSES

	2019 USD	2018 USD
<i>General and administrative expenses</i>		
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
	<b>1,886,223</b>	<b>1,899,681</b>
<i>Research and development costs</i>		
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
	<b>3,475,044</b>	<b>3,110,081</b>
<i>Selling and marketing expenses</i>		
Payroll and related expenses	-	168,280
Subcontractors	-	2,127
Travel abroad	130,781	178,517
Advertising and marketing expenses	141,407	-
	<b>272,188</b>	<b>348,924</b>
<i>Operational expenses</i>		
Payroll and related expenses	987,574	1,001,172
Software and program operating	434,174	402,808
Subcontractors	147,714	108,507
Travel abroad	224,753	390,140
	<b>1,794,215</b>	<b>1,902,627</b>



## Notes to the consolidated financial statements

### 6. EXPENSE (CONTINUED)

	2019 USD	2018 USD
<i>Finance expenses, net</i>		
Bank and other creditor fees	9,593	3,553
Interest expenses/(income)	199,103	(24,848)
Loss on foreign exchange differences	101,730	227,175
Finance cost – Alceon loan (Refer Note 16)	467,211	-
	<b>777,637</b>	<b>205,880</b>

### 7. REMUNERATION OF AUDITORS

	2019 USD	2018 USD
<b>Auditor of the Company – BDO Audit (WA) Pty Ltd</b>		
Audit and review of financial statements	30,236	36,607
Total remuneration for audit and other assurance services	<b>30,236</b>	<b>36,607</b>
<i>Non-audit services - provided by related practices of Auditor</i>		
Tax consulting services	6,479	6,522
Total remuneration for non-audit services	<b>6,479</b>	<b>6,522</b>

#### Amounts paid to non-BDO firms

*Ernst and Young Kost Forer Gabbay & Kasierer Certified Public Accountants (Israel)*

#### *Audit and other assurance services*

Audit and review of financial statements	23,400	18,720
Total remuneration for audit and other assurance services	<b>23,400</b>	<b>18,720</b>

#### *Non-audit services*

Tax consulting services	4,520	11,854
Total non-audit services	<b>4,520</b>	<b>11,854</b>

## Notes to the consolidated financial statements

### 8. INCOME TAXES

	2019 USD	2018 USD
(a) <i>Income tax recognised in profit or loss</i>		
<i>Tax expense/(income) comprises:</i>		
Current tax expense/(income)	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
Total tax expense/(income)	-	-
(b) <i>The prima face income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:</i>		
Operating loss before income tax	(7,697,087)	(7,041,539)
Prima facie tax payable / (benefit) calculated at 27.5%	(2,116,699)	(1,936,423)
Tax effect of:		
Tax effect of different tax rate of foreign subsidiary	141,235	212,876
Share based payments	339,107	200,344
Non taxable / deductible items	530,437	281,249
Non assessable items	-	-
Utilisation of tax losses previously unrecognised	(897)	-
Tax effect of current year revenue losses for which no deferred tax asset has been recognised	1,106,817	1,241,954
Income Tax Expense	-	-
(c) <i>Unrecognised deferred tax balances</i>		
The following deferred tax assets have not been brought to account:		
Unrecognised deferred tax asset – tax losses	2,827,947	2,448,849
Unrecognised deferred tax asset – other temporary differences	627,150	1,803,757
Unrecognised deferred tax liability – capitalised acquisition expenses claimed for tax purposes	-	-
Unrecognised net deferred tax assets	3,455,097	4,252,606

The net deferred tax assets not brought to account will only be of a benefit to the Company if future assessable income is derived of a nature and amount sufficient to enable the benefits to be realised, the conditions for deductibility imposed by the tax legislation continue to be complied with and the Company is able to meet the continuity of ownership and/or continuity of business tests.

## Notes to the consolidated financial statements

### 9. TRADE AND OTHER RECEIVABLES

	2019 USD	2018 USD
Trade receivables	104,509	376,854
Other receivables – Current	257,665	193,303
Other receivables – Non-Current	11,628	7,211
Total trade and other receivables	<b>373,802</b>	<b>577,368</b>

The Group has no impairments to trade and other receivables or have receivables that are part due but not impaired.

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. Receivables are generally due for settlement within 30 days and therefore are classified as current.

Refer to Note 19 for details on of the risk exposure and management of the Group's trade and other receivables.

### 10. INVENTORY

	2019 USD	2018 USD
Finished Goods	<b>33,636</b>	<b>307,379</b>

### 11. PLANT AND EQUIPMENT

	Computers and electronics USD	Office equipment and furniture USD	Leasehold Improvements USD	Total USD
<i>Cost</i>				
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
<i>Accumulated Depreciation</i>				
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
<b>Property, Plant and Equipment as at 31 December 2019</b>	<b>43,435</b>	<b>20,599</b>	<b>519</b>	<b>64,463</b>

## Notes to the consolidated financial statements

### 11. PLANT AND EQUIPMENT (CONTINUED)

	Computers and Electronics USD	Office equipment and Furniture USD	Leasehold Improvements USD	Total USD
<i>Cost</i>				
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
<i>Accumulated Depreciation</i>				
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
<b>Property, Plant and Equipment as at 31 December 2018</b>	<b>82,137</b>	<b>17,228</b>	<b>5,958</b>	<b>105,323</b>

### 12. TRADE AND OTHER PAYABLES

	2019 USD	2018 USD
Trade payables	205,819	279,974
Payroll liabilities	342,106	389,898
Provision for annual leave	190,891	99,897
Deferred income	80,490	-
Interest payable	115,168	-
<b>Total trade and other payables</b>	<b>934,474</b>	<b>769,769</b>

Trade and other payables are normally settled within 30 days from receipt of invoice. All amounts recognised as trade and other payables, but not yet invoiced, are expected to settle within 12 months.

The carrying value of the trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Refer to Note 19 for details of the risk exposure and management of the Group's trade and other payables.

## Notes to the consolidated financial statements

### 13. BORROWINGS

	2019 USD	2018 USD
Loan – current	3,014,852	-

In July 2019, the company signed on a loan agreement with Alceon Liquid Strategies Pty Ltd, for a total amount of AUD \$4,300,000.

The material terms of the loan agreement are as follows:

1. Term: two years from Financial Close.
2. Repayment: in full at maturity in July 2021, or can be repaid early in full, at any time, subject to minimum interest payment of 6 months.
3. Interest rate: for month 1-8: 15.0% per annum, for month 9-24: 17.5% per annum.
4. Options issued as finance cost (refer note 16 for details).

As of 31 December 2019, the loan balance in the financial statements is \$3,014,852. Given that the company intends to repay the loan in 2020, the loan is classified within current liabilities.

### 14. ISSUED CAPITAL

	2019		2018	
	No.	USD	No.	USD
Ordinary Shares	248,883,418	18,668,069	248,000,000	18,348,386

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 Company can be found in the Statement of Changes in Equity.

	2019	
	No	USD
Opening balances as at 1 January 2019	248,000,000	18,348,386
Exercise of employee Incentive Option Plan options <sup>3</sup>	2,883,418	339,684
Selective buy-back of shares <sup>2</sup>	(2,000,000)	(1)
	<b>248,883,418</b>	<b>18,688,069</b>

## Notes to the consolidated financial statements

### 14. ISSUED CAPITAL (CONTINUED)

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

Notes:

- On 11 October 2018, 32,500,000 shares were issued at AUD\$0.187 per share under a placement.
- On 20 June 2018, 2,000,000 shares were issued 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. Shareholder approval of the selective buy-back was obtained at the Company's Annual General Meeting on 29 May 2019.
- During the year of 2019, certain employees have exercised employee incentive option plan and converted the options to share capital with 2,883,418 options for option value at USD 339,684.

### 15. RESERVES

	2019 USD	2018 USD
Share based payments reserve	2,232,922	1,339,488
Foreign currency translation reserve	103,968	165,392
Closing balance	<b>2,336,890</b>	<b>1,504,880</b>

#### Nature of purpose of other reserves

##### *Share-based payment reserve*

The share-based payment reserve is used to recognise:

- The grant date fair value of options issued to employees but not exercised
- The grant date fair value of shares issued to employees
- The grant date fair value of deferred shares granted to employees but not yet vested

##### *Foreign currency translation*

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

## Notes to the consolidated financial statements

### 16. SHARE BASED PAYMENTS

#### Share based payments reserve

	2019 USD	2018 USD
Opening balance as at 1 January	1,339,488	899,062
Issued to consultants	-	64,116
Expense on prior year issued options	82,247	-
New options issued to employees under the Employee Incentive Option Plan <sup>2+3</sup>	683,659	357,164
Change in value on change of expiry date <sup>3</sup>	-	19,126
Issue of Alceon options (refer to Note 6) <sup>1</sup>	467,211	-
Exercise of options	(339,683)	-
<b>Closing balance as at 31 December</b>	<b>2,232,922</b>	<b>1,339,488</b>

#### Share-based Payments recognised through profit and loss

	31 December 2019 USD	31 December 2018 USD
Issued to consultants	-	64,116
Expense on prior year issued options	82,247	-
New options issued to employees under the Employee Incentive Option Plan <sup>2</sup>	629,134	23,033
Change in value on change of expiry date	-	19,126
Shares issued to Mark Bayliss <sup>4</sup>	-	288,098
Issued to Employees under the Employee incentive Option plan <sup>3</sup>	54,525	334,151
<b>Total expense recognized as share capital payments expense</b>	<b>765,906</b>	<b>728,524</b>
Issue of Alceon options (refer to Note 6) <sup>1</sup>	467,211	-
<b>Total expense recognized as finance cost</b>	<b>467,211</b>	<b>-</b>
<b>Total expense recognised through profit and loss</b>	<b>1,233,117</b>	<b>728,524</b>

## Notes to the consolidated financial statements

### 16. SHARE BASED PAYMENTS (CONTINUED)

#### Options

<sup>1</sup> 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 467,211). The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs.

As this is part of loan consideration, this expense is classified as financial cost in the statement of profit or loss and other comprehensive income.

	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)	\$242,095	\$225,116

<sup>2</sup> 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 (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 (USD 629,134) 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	9 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	\$423,320



## Notes to the consolidated financial statements

### 16. SHARE BASED PAYMENTS (CONTINUED)

#### Options (continued)

<sup>3</sup> 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 total fair value of AUD \$237,339 (USD 166,398) which will be expensed in accordance with the vesting periods of the options. The Company has recognised an expense of AUD \$78,431 (USD 54,525) 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)	\$0.22	\$0.15
Grant Date	26 December 2019	15 January 2019
Expiry Date	26 December 2026	15 November 2025
Risk Free Rate	0.77%	0.77%
Volatility	100%	100%
Total Value of Options (AUD)	\$125,490	\$111,849
Total Value of Options (USD)	\$87,981	\$78,417

#### Ordinary Shares

<sup>4</sup> During the last year, 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 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. Shareholder approval of the selective buy-back was obtained at the 2019 Annual General Meeting and the shares bought back on 6 June 2019.

## Notes to the consolidated financial statements

### 16. SHARE BASED PAYMENTS (CONTINUED)

#### 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 granted, multiplied by the share price at date of grant. As at 31 December 2019, 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 31 December 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\$) <sup>1</sup>	Conversion Shares to be issued	Value of issued Conversion Shares (A\$)	Conversion Ratio <sup>2</sup>
≤ \$100,000,000	≤ \$ 0.40	25,000,000	\$10,044,864	1 : 1
\$100,000,001 ≤ \$150,000,000	≤ \$ 0.60	18,401,667	\$11,090,534	0.736 : 1
\$150,000,001 ≤ \$200,000,000	≤ \$ 0.80	15,102,501	\$12,136,205	0.604 : 1
\$200,000,001 ≤ \$300,000,000	≤ \$ 1.21	10,935,835	\$13,181,877	0.437 : 1
\$300,000,001 ≤ \$400,000,000	≤ \$ 1.61	8,852,502	\$14,227,548	0.354 : 1
≥ \$400,000,001	≤ \$ 2.02	7,602,502	\$15,300,640	0.304 : 1

#### Notes:

1. The Share Price assumes 248,883,418 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 financial statements

### 17. LOSS PER SHARE

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

	2019 USD	2018 USD
Loss attributable to ordinary equity holders	(7,697,087)	(7,041,539)
Balance as at 1 January	248,000,000	213,500,000
Effect of shares issued during the year	312,598	8,439,726
	<b>248,312,598</b>	<b>221,939,726</b>
Basic loss per share calculation (cents) (loss/weighted average number of shares)	(3.10)	(3.17)

### 18. NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2019 USD	2018 USD
Cash and cash equivalents	957,010	3,784,678
	<b>957,010</b>	<b>3,784,678</b>

Refer to note 19 for details of the risk exposure and management of the Group's cash and cash equivalents.

#### (b) Reconciliation of loss for the period to net cash flows from operating activities

	2019 USD	2018 USD
Loss after income tax	(7,697,087)	(7,041,539)
Non-cash flows in loss:		
Share based payments	765,906	728,524
Share based payments expense recognized as finance cost	467,211	-
Depreciation	39,081	35,531
Bank fees and exchange rates differences	52,262	249,490
<b>Changes in assets and liabilities relating to operating activities</b>		
Decrease/(Increase) in inventory	273,743	(306,182)
Decrease/(Increase) in trade and other receivables	203,567	(394,786)
(Decrease)/increase in trade and other payables	164,705	(192,775)
Net cash flows from operating activities	<b>(5,730,612)</b>	<b>(6,921,737)</b>

## Notes to the consolidated financial statements

### 19. FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

	2019 USD	2018 USD
<i>Financial Assets</i>		
Cash and cash equivalents	957,010	3,784,678
Trade receivables	104,509	376,854
Other receivables – current	257,665	193,303
Other receivables – non-current	11,628	7,211
<b>Total financial assets</b>	<b>1,330,812</b>	<b>4,362,046</b>
<i>Financial liabilities</i>		
Trade payables	(205,819)	(279,974)
Other payables	(728,655)	(489,795)
Loan	(3,014,852)	-
<b>Total financial liabilities</b>	<b>(3,949,326)</b>	<b>(769,769)</b>

The Group's activities expose it to a variety of financial risks: market risks, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

#### Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other commodity price risk, such as share price risk and commodity risk. Financial instruments affected by market risk include, among others, loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

#### Foreign Currency Risk

The Consolidated Entity is exposed to currency risk on financials assets or liabilities that are denominated in a currency other than the respective functional currencies of the Consolidated Entity's, The Australian Dollar (AUD) for the Parent Entity and Canadian Dollar (CAD), US Dollar (USD), and Israeli New Shekel (ILS) for the subsidiaries of the Consolidated Entity.

The currency risk is that risk that the value of financial instruments will fluctuate due to change in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's function currency. The Consolidated Entity is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar (the functional currency of the subsidiary company), the New Israeli Shekel, the Australian Dollar (functional currency of the parent company).

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The Consolidated Entity has had no material exposure to non-functional currency amounts during the financial year.

## Notes to the consolidated financial statements

### 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Market Risk (continued)

##### Interest Rate Risk

The Group is exposed to movements in market interest rates on short term deposits and loan. The Directors monitor the Group's cash position relative to the expected cash requirements. Where appropriate, surplus funds are placed on deposit earning higher interest. The only loan for The Group is fixed rate, and therefore this risk is minimal. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

2019	Floating rates USD	Fixed interest maturing in			Non-interest bearing USD	Total USD
		< 1 year USD	1 - 5 years USD	> 5 years USD		
Financial assets						
Cash and cash equivalents	957,010	-	-	-	-	957,010
Trade and other receivables	-	-	-	-	373,802	373,802
	957,010	-	-	-	373,802	1,330,812
Weighted average interest rate	1.0%	-	-	-	-	1.0%
Financial liabilities						
Trade and other payables	-	-	-	-	934,474	934,474
Loan	-	3,014,852	-	-	-	3,014,852
	-	3,014,852	-	-	934,474	3,949,326
Weighted average interest rate	-	17.5%	-	-	-	13.4%

2018	Floating rates	Fixed interest maturing in			Non-interest bearing	Total
		< 1 year	1 - 5 years	> 5 years		
	USD	USD	USD	USD	USD	USD
Financial assets						
Cash and cash equivalents	3,784,678	-	-	-	-	3,784,678
Trade and other receivables	-	-	-	-	570,157	570,158
	3,784,678	-	-	-	570,157	4,354,836
Weighted average interest rate	1.0%	-	-	-	-	1.0%
Financial liabilities						
Trade and other payables	-	-	-	-	769,769	769,769
	-	-	-	-	769,769	769,769
Weighted average interest rate	1.0%	-	-	-	-	1.0%

## Notes to the consolidated financial statements

### 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Market Risk (continued)

##### *Sensitivity Analysis*

The Group does not consider this to be material to the Group and have therefore not undertaken any further analysis.

#### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers balances. The group's main financial assets are cash and cash equivalents as well as other receivables and represent the group's maximum exposure to credit risk in connection with its financial assets. Wherever possible and commercially practical the group holds cash with major financial institutions in Israel and Australia.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Financial assets	Note	2019 USD	2018 USD
Cash and cash equivalents	18	957,010	3,784,678
Trade receivables	9	104,509	376,854
<b>Total financial assets</b>		<b>1,061,519</b>	<b>4,161,532</b>

#### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

#### Maturity profile

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	Note	2019 USD	2018 USD
<b>Financial liabilities due for payment</b>			
Trade payables		205,819	279,974
Other payables		728,655	489,795
Loan		3,014,852	-
<b>Total expected outflows</b>		<b>3,949,326</b>	<b>769,769</b>
<b>Financial assets – cash flow realisable</b>			
Cash and cash equivalents	18	957,010	3,784,678
Trade receivables		104,509	376,854
Other receivables – current		257,665	193,303
Other receivables – non-current		11,628	7,211
<b>Total anticipated inflows</b>		<b>1,330,812</b>	<b>4,362,046</b>
Net (outflow)/inflow on financial instruments		<b>(2,618,514)</b>	<b>3,592,277</b>

## Notes to the consolidated financial statements

### 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Company may issue new shares or reduce its capital, subject to the provisions of the Company's constitution. The capital structure of the Company consists of equity attributed to equity holders of the company, comprising contributed equity, reserves and accumulated losses. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the board by the Company's management the board monitors the need to raise additional equity from equity markets.

#### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

The directors consider that the carrying amounts of financial assets and financial liabilities which are all recorded at amortised cost less accumulated impairment charges in these financial statements, approximate their fair values.

### 20. RELATED PARTY TRANSACTIONS

#### Transactions with key management personnel

##### *i. Key management personnel compensation*

The aggregate compensation made to key management personnel of the company and the Company is set out below:

	2019 USD	2018 USD
Short term employee benefits	266,371	720,516
Post-employment benefits	-	-
Termination benefits	-	-
Other benefits	-	-
Share-based payments	-	-
	<b>266,371</b>	<b>720,516</b>

##### *ii. Transactions with key management personnel and related parties*

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

## Notes to the consolidated financial statements

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### 20. RELATED PARTY TRANSACTIONS

#### Transactions with key management personnel (continued)

##### *Company secretarial and accounting services*

During the year, Trident Management Services Pty Ltd ("Trident Management Services"), provided the Company with accounting and company secretarial services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. Mr Sierakowski is a Director of Trident Management Services. The amount incurred for the year ended 31 December 2019 was USD \$86,206 (2018: USD \$77,636). As at 31 December 2019 USD \$6,757 (2018: USD \$7,674) was payable to Trident

Management Services

##### *Corporate advisory and capital raising services*

During the year, Trident Capital Pty Ltd ("Trident Capital"), provided the Company with corporate advisory services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. Mr Sierakowski is a Director of Trident Capital. The amount incurred for the year ended 31 December 2019 was USD \$24,339 (2018: USD \$14,949). As at 31 December 2019 USD \$ 4,589 (2018: USD \$ 4,934) was payable to Trident Capital

##### *Legal fees*

During the year, Price Sierakowski Corporate ("Price Sierakowski") provided the Company with legal services. Mr Sierakowski is a Director of Price Sierakowski. The amount incurred for the year ended 31 December 2019 was \$2,253 (2018: USD \$6,811). As at 31 December 2019 \$nil (2018: \$nil) was payable to Price Sierakowski.

#### **ii. Transactions with key management personnel and related parties (continued)**

##### *Consulting Services:*

During the last year, Benefit Capital Pty Ltd ('Benefit Capital') provided the Company with consulting services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. Mr Steele is a Director of Benefit Capital. As at 31 December 2018 USD \$18,688 was paid to Benefit Capital. As at 31 December 2018 \$nil was payable to Benefit Capital.

##### *Office Representation Fees:*

During the last year, Benefit Capital provided the Company with office representation services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2018 USD \$8,969 was paid to Benefit Capital. As at 31 December 2018 \$nil was payable to Benefit Capital.

##### *Supply agreement*

DTS Israel had entered into an agreement with Tabasco Holdings Ltd (Tabasco) – the owner of the Pizza Hut Israel chain – with respect to certain Pizza Hut establishments in Israel. Tabasco is a related party of the Company as it is controlled by Yehuda Shamai, who is a Non-Executive Director of the Company. The material terms of the agreement between the Company and Tabasco are as follows:

- for a period of 10 years from the first installation (i.e. February 2014) (10 Year Period), for the first 25 Pizza Hut Israel locations for which Tabasco receives services from the Company, Tabasco is not required to pay any initial set up fees and the Company provides the ongoing services at cost; and
- for the 26th to 100th Pizza Hut Israel locations, for the 10 Year Period, Tabasco pays a reduced initial set up fee (to be determined by the parties at the relevant time), and receives a 75% discount on the monthly fees, based on the Company's price list.
- The discounted rates will cease to apply at the end of the 10 Year Period.
- The Company notes that it negotiated the terms of the agreement on an arm's length basis and will continue to ensure that all future dealings with Tabasco are similarly entered into and undertaken on an arm's length basis.
- For the year-ended 31 December 2019 there was USD \$12,130 (2018: USD \$11,055) in revenue derived from Tabasco Holdings Ltd



## Notes to the consolidated financial statements

### 21. CONTINGENT LIABILITIES

The Directors of the Group are not aware of any contingent liabilities which require disclosure in the financial year ended 31 December 2019 (31 December 2018: nil).

### 22. COMMITMENTS

	2019 USD	2018 USD
<i>Office representation commitments</i>		
Not later than 1 year	62,191	84,796
Later than 1 year but not later than 5 years	-	-
Total operating lease commitments	<b>62,191</b>	<b>84,796</b>
<i>Company secretary commitments</i>		
Not later than 1 year	33,379	33,874
Total Company secretary commitments	<b>33,379</b>	<b>33,874</b>

### 23. EVENTS OCCURRING AFTER THE REPORTING PERIOD

#### Binding Subscription Agreement

On March 23, 2020 the company announced that a binding subscription agreement has been entered into for a two-stage investment of up to A\$19.25m via the issue of convertible preference shares.

- The raise is led by strategically important US-based investors, Eldridge Industries (together with its affiliates, "Eldridge") and Goudy Park Capital LP (together with its affiliates, "Goudy").
- Stage 1 of the funding will raise A\$12m comprised of Eldridge's investment of A\$5.25m, Goudy's investment of A\$4.75m and a A\$2m investment by Alceon Liquid Strategies Pty Ltd as trustee of the Alceon High Conviction Absolute Return Fund ("Alceon").
- The issue price of the convertible preference shares is A\$0.13.
- The Company will use the funds to repay its existing A\$4.3m corporate loan with Alceon and the US\$2m bridge loan provided by Eldridge, thus discharging all third-party borrowings. The funding will also support the Company's operations, including its planned expansion into the US and its ongoing growth in other markets.
- The agreement was entered into after completion of a confirmatory due diligence by the investors, subject to shareholder approval.

#### COVID-19 Pandemic

The World Health Organisation announced that the new coronavirus disease (COVID-19) had become a pandemic on 11 March 2020. The Group has developed policies and procedures to address the health and wellbeing of employees. The timing, extent of the impact and recovery from COVID-19 on our employees, customers and suppliers is unknown at this stage, but it may have an impact on activities and potentially a post balance date impact.

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.

## Notes to the consolidated financial statements

### 24. 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 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 USD	2018 USD	2019 USD	2018 USD
Sale of software in 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)	-	-	(777,637)	(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	-	-	(765,906)	(728,524)
<b>Loss before tax (continuing operations)</b>	<b>1,274,126</b>	<b>1,154,178</b>	<b>(8,971,213)</b>	<b>(8,195,717)</b>

### 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:

	2019 USD	2018 USD
Israel	46,654	157,264
Australia	941,308	814,488
Canada	219,549	157,866
USA	66,615	24,560
<b>Total revenues</b>	<b>1,274,126</b>	<b>1,154,178</b>

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

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

## Notes to the consolidated financial statements

### 25. PARENT ENTITY INFORMATION

The following detailed information is related to the legal parent entity, Dragontail Systems Limited as at 31 December 2019.

	2019 USD	2018 USD
Current assets	558,374	3,535,165
Total assets	575,944	3,566,115
Current liabilities	3,899,114	363,891
Total liabilities	3,899,114	363,891
Contributed equity	15,092,110	14,752,427
Reserves	2,336,890	1,504,880
Accumulated Losses	(20,752,170)	(13,055,083)
Total equity	(3,323,170)	3,202,224
Loss for the year	(8,441,160)	(7,198,722)
Other comprehensive income for the year	744,073	157,183
Total comprehensive loss for the year	(7,697,087)	(7,041,539)

## Directors' declaration

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The Directors of the Group declare that:

1. In the Directors' opinion, the financial statements and accompanying notes set out on pages 15 to 49 are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date;
2. note 3 confirms that the financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
3. in the Directors' opinion, there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable;
4. the remuneration disclosures included in pages 8 to 12 of the directors' report (as part of the audited Remuneration Report), for the year ended 31 December 2019, comply with section 300A of the *Corporations Act 2001*; and
5. the Directors have been given the declarations required by section 295(5)(a) of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**Ido Levanon**

Managing Director

31<sup>st</sup> day of March 2020

## INDEPENDENT AUDITOR'S REPORT

To the members of Dragontail Systems Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Dragontail Systems Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty related to going concern

We draw attention to Note 3(o) 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 opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Accounting for Share-based Payments

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During the year ended 31 December 2019, the entity issued options to a loan provider, which the Group has accounted for as a share-based payment and recognised as a finance cost. The entity also issued options to employees under the Employee Incentive Option Plan, approved at the Annual General Meeting, which the Group has accounted for as share based payment expense.</p> <p>Refer to Notes 3 and 16 of the financial report for a description of the accounting policy and significant estimates and judgements applied to these transactions.</p> <p>Share-based payments are a complex accounting area and due to the complex and judgemental estimates used in the fair value calculations and judgements regarding the options issued during the year, we consider the accounting for share based payments to be a key audit matter.</p>	<p>Our procedures in respect of this area included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Reviewing the relevant agreements to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements;</li> <li>• Reviewing market announcements made by the entity and board minutes to ensure all new share-based payments granted during the year have been accounted for;</li> <li>• Holding discussions with management to understand the share-based payment transactions in place;</li> <li>• Reviewing management's determination of the fair value of the share-based payments granted, considering the appropriateness of the valuation models used and assessing the valuation inputs;</li> <li>• Involving our valuation specialists to assess the reasonableness of management's valuation inputs; and</li> <li>• Assessing the adequacy of the related disclosures in Notes 3 and 16 to the Financial Statements.</li> </ul>

## **Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Dragontail Systems Limited, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.



### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in black ink, appearing to be 'Neil Smith', written over a small, faint BDO logo.

**Neil Smith**

**Director**

Perth, 31 March 2020



## Corporate Governance Statement

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The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set out below. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations.

The corporate governance statement discloses the extent to which the Company follows the recommendations. The Company will follow each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices will follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices will not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company will adopt instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at [www.dragontailsystems.com](http://www.dragontailsystems.com), under the section marked "Corporate Governance":

- (a) Board Charter;
- (b) Board Performance Evaluation Policy;
- (c) Code of Conduct;
- (d) Audit and Risk Management Committee Charter;
- (e) Remuneration and Nomination Committee Charter;
- (f) Security Trading Policy;
- (g) Continuous Disclosure Policy;
- (h) Shareholder Communication and Investor Relations Policy;
- (i) Risk Management Policy;
- (j) Diversity Policy; and
- (k) Whistleblower policy.

### **Principle 1: Lay solid foundations for management and oversight**

#### ***Recommendation 1.1***

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management and has documented this in its Board Charter.

The responsibilities of the Board include but are not limited to:

- (a) setting and reviewing strategic direction and planning;
- (b) reviewing financial and operational performance;
- (c) identifying principal risks and reviewing risk management strategies; and
- (d) considering and reviewing significant capital investments and material transactions.

In exercising its responsibilities, the Board recognises that there are many stakeholders in the operations of the Company, including employees, shareholders, co-ventures, the government and the community.

The Board has delegated responsibility for the business operations of the Company to the Managing Director and the management team. The management team, led by the Managing Director is accountable to the Board.

#### ***Recommendation 1.2***

The Company undertakes appropriate checks before appointing a person or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect a director.

The checks which are undertaken, and the information provided to shareholders, are set out in the Company's Remuneration and Nomination Committee Charter.

#### ***Recommendation 1.3***

The Company has a written agreement with each of the Directors setting out the terms of their appointment. The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Chief Executive Officer (or equivalent), any of its directors, and any other person or entity who is a related party of the Chief Executive Officer (or equivalent) or any of its directors will be disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

## Corporate Governance Statement

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### **Recommendation 1.4**

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Company Secretary is responsible for the application of best practice in corporate governance and also supports the effectiveness of the Board by:

- (a) ensuring a good flow of information between the Board, its committees, and Directors;
- (b) monitoring policies and procedures of the Board;
- (c) advising the Board through the Chairman of corporate governance policies; and
- (d) conducting and reporting matters of the Board, including the despatch of Board agendas, briefing papers and minutes.

### **Recommendation 1.5**

The Company has a Diversity Policy, the purpose of which is:

- (a) to outline the Company's commitment to creating a corporate culture that embraces diversity and, in particular, focuses on the composition of its Board and senior management; and
- (b) to provide a process for the Board to determine measurable objectives and procedures which the Company will implement and report against to achieve its diversity goals.

As at 31 December 2019 there are 2 women in senior executive positions in the Company, and 10 women employees across the Company, representing 25% of the whole organisation. There are no women on the Board at this time. The Board maintains full transparency of board processes, reviews and appointments and encourages gender diversity.

Given the Company's size the Board does not consider it appropriate to set quantitative objectives regarding gender diversity at this time. As the operations grow, the Board will give consideration to the setting of such objectives and their achievement through the appointment of appropriate candidates to the Board and senior executive positions as they become available.

### **Recommendation 1.6**

The Board will be responsible for evaluating the performance of the Company's senior executives in accordance with the process disclosed in the Company's Process for Performance Evaluations, which is currently being developed by the Board, following the Company's reinstatement to the ASX.

The Chair will be responsible for evaluating the performance of the Company's Chief Executive Officer (or equivalent) in accordance with the process disclosed in the Company's Process for Performance Evaluations, which is currently being developed by the Board. A general performance evaluation was not conducted during the reporting period and will be performed during the current financial year.

### **Recommendation 1.7**

The Chair will be responsible for evaluating the performance of the Board, Board committees and individual directors in accordance with the process disclosed in the Company's Board performance evaluation policy.

This policy is to ensure:

- (a) individual Directors and the Board as a whole work efficiently and effectively in achieving their functions;
- (b) the executive Directors and key executives execute the Company's strategy through the efficient and effective implementation of the business objectives; and
- (c) committees to which the Board has delegated responsibilities are performing efficiently and effectively in accordance with the duties and responsibilities set out in the board charter.

This policy will be reviewed annually. The Company will report on whether an evaluation of the Board, its committees and individual directors has taken place in the relevant reporting period, and whether the process was in accordance with the process disclosed, in each of its corporate governance statements. An evaluation has not been conducted during the reporting period and will be performed during the current financial year.

## Corporate Governance Statement

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### **Principle 2: Structure the board to add value**

#### **Recommendation 2.1**

Due to the size of the Board, the Company does not have a separate nomination committee. The roles and responsibilities of a nomination committee are currently undertaken by the Board.

The duties of the full Board in its capacity as a nomination committee are set out in the Company's Remuneration and Nomination Committee Charter which is available on the Company's website.

When the Board meets as a remuneration and nomination committee it carries out those functions which are delegated to it in the Company's Remuneration and Nomination Committee Charter. Items that are usually required to be discussed by a Remuneration and Nomination Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Remuneration and Nomination Committee Charter which describes the role, composition, functions and responsibilities of a Nomination Committee and is disclosed on the Company's website.

#### **Recommendation 2.2**

The mix of skills and diversity which the Board is looking to achieve in its composition is:

- (a) a broad range of business experience; and
- (b) technical expertise and skills required to discharge duties.

#### **Recommendation 2.3**

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles and Recommendations.

During the year ended 31 December 2019, the Board was structured as follows:

- (a) Mr Yehuda Shamai (Non-executive Chairman);
- (b) Mr Ido Levanon (Managing Director);
- (c) Mr Ron Zuckerman (Non-executive Director);
- (d) Mr Adam Sierakowski (Non-executive Director);
- (e) Mr Stephen Hewitt-Dutton (Non-executive Director);

Mr Levanon is an executive director of the Company and is therefore a non-independent director.

Mr Shamai controls Tabasco Holdings Limited which has an agreement with the Company's subsidiary and is therefore a non-independent director.

Mr Zuckerman is an independent, non-executive director.

Mr Sierakowski is a director of Trident Capital Pty Ltd, which is a shareholder of the Company and a provider of material professional services and is therefore a non-independent director.

Mr Hewitt-Dutton is an independent, non-executive director.

#### **Recommendation 2.4**

Currently, the Board considers that membership weighted towards technical expertise is appropriate at this stage of the Company's operations. A majority of the Board is not independent.

#### **Recommendation 2.5**

Mr Shamai is not an independent Chairman of the Board. However, Mr Shamai is considered to be most appropriate person to Chair the Board because of his expertise and skills.

## **Corporate Governance Statement**

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### **Recommendation 2.6**

It is a policy of the Company, that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

### **Principle 3: Act ethically and responsibly**

#### **Recommendation 3.1**

The Company is committed to promoting good corporate conduct grounded by strong ethics and responsibility. The Company has established a Code of Conduct (Code), which addresses matters relevant to the Company's legal and ethical obligations to its stakeholders. It may be amended from time to time by the Board and is disclosed on the Company's website.

The Code applies to all Directors, employees, contractors and officers of the Company. The Code will be formally reviewed by the Board each year.

### **Principle 4: Safeguard integrity in corporate reporting**

#### **Recommendation 4.1**

Due to the size of the Board, the Company does not have a separate Audit Committee. The roles and responsibilities of an audit committee are undertaken by the Board. The full Board in its capacity as the audit committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The duties of the full Board in its capacity as the audit committee are set out in the Company's Audit Committee Charter which is available on the Company's website.

When the Board meets as an audit committee it carries out those functions which are delegated to it in the Company's Audit Committee Charter. Items that are usually required to be discussed by an Audit Committee are marked as separate agenda items at Board meetings when required.

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Board has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee and is disclosed on the Company's website.

#### **Recommendation 4.2**

Before the Board approves the Company financial statements for each financial period it will receive from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## Corporate Governance Statement

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### **Recommendation 4.3**

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered. If the Company's auditor is unable to attend, they must arrange to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company will write to the Company's auditor to inform them of the date of the Company's annual general meeting. In accordance with section 250S of the Corporations Act, at the Company's annual general meeting where the Company's auditor (or their representative) is at the meeting, the Chair will allow a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or their representative) questions relevant to the conduct of the audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair will also allow a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

### **Principle 5: Make timely and balanced disclosure**

#### **Recommendation 5.1**

The Company is committed to:

- (a) ensuring that shareholders and the market are provided with full and timely information about its activities;
- (b) complying with the continuous disclosure obligations contained in the Listing Rules and the applicable sections of the Corporations Act; and
- (c) providing equal opportunity for all stakeholders to receive externally available information issued by the Company in a timely manner.

The Company has adopted a Disclosure Policy, which is disclosed on the Company's website. The Disclosure Policy sets out policies and procedures for the Company's compliance with its continuous disclosure obligations under the ASX Listing Rules, and addresses financial markets communication, media contact and continuous disclosure issues. It forms part of the Company's corporate policies and procedures and is available to all staff.

The Company Secretary manages the policy. The policy will develop over time as best practice and regulations change and the Company Secretary will be responsible for communicating any amendments. This policy will be reviewed by the Board annually.

### **Principle 6: Respect the rights of security holders**

#### **Recommendation 6.1**

The Company provides information about itself and its governance to investors via its website at [www.dragontailsystems.com](http://www.dragontailsystems.com). The Company is committed to maintaining a Company website with general information about the Company and its operations and information specifically targeted at keeping the Company's shareholders informed about the Company. In particular, where appropriate, after confirmation of receipt by ASX, the following will be posted to the Company website:

- (a) relevant announcements made to the market via ASX;
- (b) media releases;
- (c) investment updates;
- (d) Company presentations and media briefings;
- (e) copies of press releases and announcements for the preceding three years; and
- (f) copies of annual and half yearly reports including financial statements for the preceding three years.

## **Corporate Governance Statement**

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### **Recommendation 6.2**

The Company has a Shareholder Communication and Investor Relations Policy which aims to ensure that Shareholders are informed of all major developments of the Company. The policy is disclosed on the Company's website.

Information is communicated to Shareholders via:

- (a) reports to Shareholders;
- (b) ASX announcements;
- (c) annual general meetings; and
- (d) the Company website.

This Shareholder Communication and Investor Relations policy will be formally reviewed by the Board each year. While the Company aims to provide sufficient information to Shareholders about the Company and its activities, it understands that Shareholders may have specific questions and require additional information. To ensure that Shareholders can obtain all relevant information to assist them in exercising their rights as Shareholders, the Company has made available a telephone number and relevant contact details (via the website) for Shareholders to make their enquiries.

### **Recommendation 6.3**

The Board encourages full participation of Shareholders at meetings to ensure a high level of accountability and identification with the Company's strategies and goals. However, due to the size and nature of the Company, the Board does not consider a policy outlining the policies and processes that it has in place to facilitate and encourage participating at meetings of shareholders to be appropriate at this stage.

### **Recommendation 6.4**

Shareholders are given the option to receive communications from, and send communication to, the Company and its share registry electronically. To ensure that shareholders can obtain all relevant information to assist them in exercising their rights as shareholders, the Company has made available a telephone number and relevant contact details (via the website) for shareholders to make their enquiries.

## **Principle 7: Recognise and manage risk**

### **Recommendation 7.1**

Due to the size of the Board, the Company does not have a separate Risk Committee. The Board is responsible for the oversight of the Company's risk management and control framework.

When the Board meets as a risk committee it carries out those functions which are delegated to it in the Company's Risk Committee Charter. Items that are usually required to be discussed by a Risk Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Risk Committee Charter which describes the role, composition, functions and responsibilities of the Risk Committee and is disclosed on the Company's website.

The Board has adopted a Risk Management Policy, which is disclosed on the Company's website. Under the policy, responsibility and control of risk management is delegated to the appropriate level of management within the Company with the Chief Executive Officer having ultimate responsibility to the Board for the risk management and control framework.

The risk management system covers:

- (a) operational risk;
- (b) financial reporting;
- (c) compliance / regulations; and
- (d) system / IT process risk.

A risk management model is to be developed and will provide a framework for systematically understanding and identifying the types of business risks threatening the Company as a whole, or specific business activities within the Company.

## **Corporate Governance Statement**

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### **Recommendation 7.2**

The Board will review the Company's risk management framework annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board.

Arrangements put in place by the Board to monitor risk management include, but are not limited to:

- (a) monthly reporting to the Board in respect of operations and the financial position of the Company; and
- (b) quarterly rolling forecasts prepared;

### **Recommendation 7.3**

The Company does not have, and does not intend to establish, an internal audit function. To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's Risk Management Policy.

### **Recommendation 7.4**

Given the speculative nature of the Company's business, it is subject to general risks and certain specific risks.

The Company will identify and monitor those economic, environmental and/or social sustainability risks to which it has a material exposure, and disclose how it intends to manage those risks if any.

## **Principle 8: Remunerate fairly and responsibly**

### **Recommendation 8.1**

Due to the size of the Board, the Company does not have a separate remuneration committee. The roles and responsibilities of a remuneration committee are currently undertaken by the Board.

The duties of the full board in its capacity as a remuneration committee are set out in the Company's Remuneration and Nomination Committee Charter which is available on the Company's website.

When the Board meets as a remuneration committee it carries out those functions which are delegated to it in the Company's Remuneration and Nomination Committee Charter. Items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Remuneration and Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee and is disclosed on the Company's website.

### **Recommendation 8.2**

Details of the Company's policies on remuneration will be set out in the Company's "Remuneration Report" in each Annual Report published by the Company. This disclosure will include and is not limited to material terms of Executive remuneration, Non-Executive remuneration, performance-based remuneration and equity-based remuneration (if applicable).

### **Recommendation 8.3**

The Company's Security Trading Policy includes a statement on the Company's policy on prohibiting participants in the Company's Employee Incentive Plan entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Employee Incentive Plan.

## **Security Trading Policy**

In accordance with ASX Listing Rule 12.9, the Company has adopted a trading policy which sets out the following information:

- (a) closed periods in which directors, employees and contractors of the Company must not deal in the Company's securities;
- (b) trading in the Company's securities which is not subject to the Company's trading policy; and
- (c) the procedures for obtaining written clearance for trading in exceptional circumstances.

The Company's Security Trading Policy is available on the Company's website.

## ASX Additional Information

Pursuant to the Listing Rules of the Australian Securities Exchange, the shareholder information set out below was applicable as at 11 March 2020.

### A. Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of Holders	Number of Shares	%
1 to 1,000	24	5,101	0.00%
1,001 to 5,000	200	674,811	0.27%
5,001 to 10,000	158	1,270,357	0.510%
10,001 to 100,000	382	14,493,468	5.82%
100,001 and Over	160	232,439,681	93.40%
	<b>924</b>	<b>248,883,418</b>	<b>100.00%</b>

There were 180 shareholders holding less than a marketable parcel of ordinary shares.

### B. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

Substantial Holder Name	Issued Ordinary Shares	
	Number	%
YEHUDA SHAMAI	35,051,763	14.1%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,302,593	13.4%
IDO LEVANON	22,975,830	9.2%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	16,724,883	6.7%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	14,625,000	5.9%
IBI TRUST MANAGEMENT <GUY BRANDWIN A/C>	14,162,810	5.7%



## ASX Additional Information

### C. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

		Issued Ordinary Shares	
	Shareholder Name	Number	% of total share capital
1	INTERNET FUND IIIA PTE LTD	33,302,593	13.38%
2	IBI TRUST MANAGEMENT <YEHUDA SHAMAI A/C>	32,691,295	13.14%
3	IBI TRUST MANAGEMENT <IDO LEVANON A/C>	22,450,830	9.02%
4	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	16,724,883	6.72%
5	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	14,625,000	5.88%
6	IBI TRUST MANAGEMENT <GUY BRANDWIN A/C>	14,162,810	5.69%
7	IBI TRUST MANAGEMENT <BONALE FOUNDATION A/C>	8,433,020	3.39%
8	IBI TRUST MANAGEMENT <RELIGION GADEL ENT A/C>	4,254,863	1.71%
9	TWO TOPS PTY LTD	3,818,219	1.53%
10	IBI TRUST MANAGEMENT <BAUMANN'S LTD A/C>	3,253,013	1.31%
11	TRIDENT CAPITAL PTY LTD	3,150,000	1.27%
12	IBI TRUST MANAGEMENT <MARCELO FABIN ROITMAN A/C>	3,001,610	1.21%
13	SAMLISA NOMINEES PTY LTD	3,000,000	1.21%
14	IBI CAPITAL MANAGEMENT <DRAGONTAIL ESOP PLAN A/C>	2,823,418	1.13%
15	IBI CAPITAL MANAGEMENT <MORDEHAI & MEIRA BARAM A/C>	2,777,021	1.12%
16	IBI TRUST MANAGEMENT <TABASCO HOLDINGS LTD A/C>	2,360,468	0.95%
17	GROKCO PTY LTD <GROKTRUST A/C>	2,272,728	0.91%
18	CAMBRIAN HOLDINGS PTY LTD	2,213,659	0.89%
19	IBI CAPITAL MANAGEMENT <SAROL LTD A/C>	2,179,962	0.88%
20	IML HOLDINGS PTY LTD	2,012,593	0.81%
<b>Total</b>		<b>179,507,985</b>	<b>72.15%</b>

### D. Listed Options

As at the date of this report there were nil listed options on issue in the Company.

## ASX Additional Information

### E. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

### F. Unquoted Securities

#### Performance Shares

Number of Performance Shares	25,000,000
Number of Holders	3
Holders with more than 20%	Ido Levanon 33.4%, Yehuda Shamai 33.3%, Guy Brandwin 33.3%

#### Unlisted Options - \$0.40; 4 September 2020

Number of Unlisted Options	1,500,000
Number of Holders	1
Holders with more than 20%	Ketom Pty Ltd – 100%

#### Unlisted Options - \$0.40; 20 June 2021

Number of Unlisted Options	1,500,000
Number of Holders	1
Holders with more than 20%	Trident Capital Pty Ltd – 100%

#### Unlisted Options - \$0.25; 31 December 2020

Number of Unlisted Options	2,500,000
Number of Holders	1
Holders with more than 20%	CG Nominees (Australia) Pty Ltd– 100%

#### Unlisted Options - \$0.35; 31 December 2020

Number of Unlisted Options	2,500,000
Number of Holders	1
Holders with more than 20%	CG Nominees (Australia) Pty Ltd– 100%

## ASX Additional Information

### Unlisted Options - \$0.22; 16 July 2021

Number of Unlisted Options	1 (exercisable into 5,000,000 Ordinary Shares)
Number of Holders	1
Holders with more than 20%	Alceon Liquid Strategies Pty Limited <Alceon High Conviction Absolute Return Fund A/C>– 100%

### Unlisted Options - \$0.25; 16 July 2021

Number of Unlisted Options	1 (exercisable into 5,000,000 Ordinary Shares)
Number of Holders	1
Holders with more than 20%	Alceon Liquid Strategies Pty Limited <Alceon High Conviction Absolute Return Fund A/C>– 100%

### Employee Options - \$0.00; 15 November 2025

Number of Unlisted Options	566,582 <sup>1</sup>
Number of Holders	1

### Employee Options - \$0.22; 12 April 2025

Number of Unlisted Options	3,625,000 <sup>1</sup>
Number of Holders	10

### Employee Options - \$0.15; 15 November 2025

Number of Unlisted Options	2,725,000 <sup>1</sup>
Number of Holders	13

### Employee Options - \$0.15; 21 November 2026

Number of Unlisted Options	1,225,000
Number of Holders	13

### Employee Options - \$0.22; 21 November 2026

Number of Unlisted Options	1,700,000
Number of Holders	1

<sup>1</sup> The number of options on issue has reduced since the grant date owing to options lapsing following staff resignations and options being exercised.

## **ASX Additional Information**

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### **G. On Market Buy-Back**

There is no current on market buy-back for any of the Company's securities.

### **H. Restricted Securities**

The Company has no restricted securities.

### **I. Details 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. As the milestone was 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.