

RULE 4.2A

APPENDIX 4D

Half-year Report for the period ending 30 June 2020

1. Name of entity

DRAGONTAIL SYSTEMS LIMITED AND ITS CONTROLLED ENTITIES

ABN	Reporting Period	Previous Corresponding Period
63 614 800 136	Half year ended 30 June 2020	Half year ended 30 June 2019

2. Results for Announcement to the Market

Financial Results				30 June 2020
Revenues from ordinary activities (<i>item 2.1</i>)	Up	34%	to	549,692
Loss from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Down	30%	to	(2,787,778)
Loss for the period attributable to members (<i>item 2.3</i>)	Down	30%	to	(2,787,778)
Final and interim dividends (<i>item 2.4</i>)	It is not proposed that either a final or interim dividend be paid .			
Record date for determining entitlements to the dividend (<i>item 2.5</i>)	N/A			
Brief explanation of any of the figures reported above (<i>item 2.6</i>):	During the six months ended 30 June 2020, the company's install base of the consolidated offering increased to more than 2,300 stores globally. The Company has maintained its strong position within its leading global QSR (Quick Service Restaurants) customers and collaborations with the world's leading aggregators have expanded and gone live.			

3. NTA Backing

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share (<i>Item 3</i>)	-2 dollars	0.23 cents

4. Control gained over entities

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

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

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

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

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

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



Dragontail Systems Limited & Controlled Entities

ACN 614 800 136

**CONSOLIDATED INTERIM FINANCIAL REPORT
for the half-year ended 30 June 2020**

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Corporate information

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

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

Directors

Mr Yehuda Shamai (*appointed 14 September 2016*)

Mr Ido Levanon (*appointed 14 September 2016*)

Mr Ron Zuckerman (*appointed 14 September 2016*)

Mr Adam Sierakowski (*appointed 14 September 2016*)

Mr Henry Shiner (*appointed 13 May 2020*)

Mr Stephen Hewitt-Dutton (*appointed 11 June 2018, resigned 13 May 2020*)

Company Secretary

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

Registered Office

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Auditors

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

Share Registry & Register

Advanced Share Registry Limited
110 Stirling Highway
Nedlands WA 6009

Stock Exchange Listing

Dragontail Systems Limited is listed on the Australian Securities Exchange

ASX Code: DTS

Directors' report

The directors of Dragontail Systems Limited ("the Company" or "DTS Australia") and its controlled entities ("the Group") submit herewith the financial statements of the Group for the half-year ended 30 June 2020.

Directors

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

Yehuda Shamai	Non-Executive Chairman
Ido Levanon	Managing Director
Ron Zuckerman	Non-Executive Director
Adam Sierakowski	Non-Executive Director
Henry Shiner	Non-Executive Director

Principal activities

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

Operating results and financial position

The net loss for the half-year ended 30 June 2020 was \$2,849,064 (2019: \$4,045,582).

Review of operations

- During the 6 months ended on 30 June 2020, Dragontail's install base of the consolidated offering (Algo and QT Camera) increased to more than 2,300 stores globally.
- Collaborations with the world's leading aggregators have expanded and gone live (third party delivery operators) on multiple continents: Asia, Australia, North America and Europe.
- Pizza Hut restaurants across Asia Pacific awarded Dragontail as the preferred partner to provide the kitchen and delivery management capabilities through the Algo Platform.
- 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
- Successful completion of the Algo Platform rollout in Pizza Hut stores across Australia, followed by an extension of the contract between the parties for a further two years (to three years), after experiencing very positive results from Pizza Hut stores using the Dragontail Algo system.
- Dragontail expanded further into European markets in addition the UK - going live in Pizza Hut's stores across Belgium and signing an agreement with AM Group, the biggest KFC franchisee in Germany, to implement the Algo platform in its stores across Germany.
- Dragontail and Domino's Australia continue their successful partnership, which has seen the development of world-first technology, followed by additional AI-based enhancements, to enable the compliance of the stores with the chain's high sanitary standards during the COVID-19 pandemic.
- Dragontail's largest Pizza Hut franchisee in Canada converts their Algo Lite stores to full Algo.
- The Total Technology solution was launched in the USA and Australia. It delivers a monthly recurring SaaS revenue approximately four times greater than received from the Algo Platform. The solution comprises of the Algo platform, a POS system (Point Of Sale), on-line ordering, driver tracking, and the ability to combine aggregators' drivers together with the stores' own drivers.

Directors' report

Review of operations (continued)

- Dragontail has finalized the first stage of two funding tranches from strategic investors.

The funding is led by Eldridge Industries ("Eldridge"), and Goudy Park Capital LP ("Goudy"), with support of the Company's largest Australia- based shareholder, Alceon Liquid Strategies Pty Ltd ("Alceon").

Following the receipt of the first tranche of A\$12M (US\$8.3M), all borrowings were paid thus discharged all third-party borrowings.

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.

Significant changes in state of affairs

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

Events occurring after the reporting period

On 9 July 2020, 4,040,954 convertible preference shares were converted into 4,040,954 ordinary shares.

On 23 July 2020, 32,497,508 convertible preference shares were converted into 32,497,508 ordinary shares.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs in future financial years.

Auditor's independence declaration

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

Signed in accordance with a resolution of the directors



Ido Levanon
Director

Israel

31st day of August 2020

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

As lead auditor for the review of Dragontail Systems Limited for the half-year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 31 August 2020

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2020

	Note	Consolidated Half-Year ended 30 June 2020 USD	Consolidated Half-Year ended 30 June 2019 USD
Revenue		549,692	409,218
Research and Development (“R&D”) tax incentive and others		474,450	512,492
		<u>1,024,142</u>	<u>921,710</u>
Research and development expenses		(962,028)	(2,381,051)
Selling and marketing expenses		(106,498)	(92,936)
General and administrative expenses	4	(752,114)	(976,976)
Operating expenses	4	(831,515)	(888,336)
Share based payment expenses	10	(103,859)	(582,133)
Total operating expenses		<u>(2,756,014)</u>	<u>(4,921,432)</u>
Operating loss		<u>(1,731,871)</u>	<u>(3,999,722)</u>
Net finance expense	4	(1,117,194)	(45,860)
Loss before income tax		(2,849,065)	(4,045,582)
Income tax benefit		-	-
Loss for the half-year		<u>(2,849,065)</u>	<u>(4,045,582)</u>
Other comprehensive income for the half-year			
Foreign currency translation differences		61,287	34,438
Total comprehensive loss for the half-year		<u>(2,787,778)</u>	<u>(4,011,144)</u>
Loss per share for the half-year attributable to members of Dragontail Systems Limited			
Loss per share (basic and diluted) (cents)	9	(1.14)	(1.63)

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

Consolidated statement of financial position as at 30 June 2020

	Note	Consolidated 30 June 2020 USD	Consolidated 31 December 2019 USD
Current Assets			
Cash and cash equivalents		4,101,543	957,010
Trade receivables		86,079	104,509
Inventories		26,990	33,636
Other receivables		102,505	257,665
Total Current Assets		4,317,117	1,352,820
Non-Current Assets			
Other receivables		11,652	11,628
Plant and equipment		49,889	64,463
Total Non-Current Assets		61,541	76,091
Total Assets		4,378,658	1,428,911
Current Liabilities			
Trade payables		139,304	205,819
Other payables		568,797	728,655
Borrowings		-	3,014,852
Convertible preference Shares	6	8,874,890	-
Total Current Liabilities		9,582,992	3,949,326
Total Liabilities		9,582,992	3,949,326
Net Liabilities		(5,204,334)	(2,520,415)
Equity			
Issued capital	7	18,688,069	18,688,069
Reserves	8	2,502,036	2,336,890
Accumulated losses		(26,394,439)	(23,545,374)
Total Deficiency in Equity		(5,204,334)	(2,520,415)

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

Consolidated statement of changes in equity for the half-year ended 30 June 2020

	Share Capital USD	Foreign currency translation reserve USD	Shares based payments reserve USD	Accumulated losses USD	Total USD
2020 Consolidated					
Balance at 1 January 2020	18,688,069	103,968	2,232,922	(23,545,374)	(2,520,415)
Loss for the half-year	-	-	-	(2,849,065)	(2,849,065)
Foreign exchange movements	-	61,287	-	-	61,287
Total comprehensive (loss)	-	61,287	-	(2,849,065)	(2,787,778)
Transactions with owners, in their capacity as owners					
Issue of shares	-	-	-	-	-
Share based payment transactions	-	-	103,859	-	103,859
	-	-	103,859	-	103,859
Balance at 30 June 2020	18,688,069	165,255	2,336,781	(26,394,439)	(5,204,334)
2019 Consolidated					
Balance at 1 January 2019	18,348,386	165,392	1,339,488	(15,848,287)	4,004,979
Loss for the half-year	-	-	-	(4,045,582)	(4,045,582)
Foreign exchange movements	-	34,438	-	-	34,438
Total comprehensive (loss)	-	34,438	-	(4,045,582)	(4,011,144)
Transactions with owners, in their capacity as owners					
Issue of shares	282,547	-	(282,547)	-	-
Shares bought back on market and cancelled (Note 7)	(1)	-	-	-	(1)
Share based payment transactions	-	-	582,133	-	582,133
	282,546	-	299,586	-	582,132
Balance at 30 June 2019	18,630,932	199,830	1,639,074	(19,893,869)	575,967

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

Consolidated statement of cash flows for the half-year ended 30 June 2020

	Consolidated Half-Year ended 30 June 2020 USD	Consolidated Half-Year ended 30 June 2019 USD
Cash flows from operating activities		
Receipts from customers	760,881	726,755
Receipt from ATO for R&D incentive and others	494,222	512,495
Cash payments to suppliers and employees	(3,390,508)	(4,029,915)
Net cash flows (used in) operating activities	(2,135,405)	(2,790,665)
Cash flows from investing activities		
Payments for property, plant and equipment	(1,696)	(4,086)
Net cash flows (used in) investing activities	(1,696)	(4,086)
Cash flows from financing activities		
Proceeds from issue of convertible preference shares	8,240,967	-
Short term loan repayment	(3,014,852)	-
Interest paid	(209,572)	-
Payments for shares bought back	-	(1)
Net cash flows from financing activities	5,016,543	(1)
Exchange differences on cash balances and cash equivalents	265,090	8,849
Net (decrease) in cash and cash equivalents	3,144,533	(2,785,903)
Cash and cash equivalents at the beginning of the financial period	957,010	3,784,678
Cash and cash equivalents at the end of the financial period	4,101,543	998,775

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

Notes to the consolidated interim financial statements

1. REPORTING ENTITY

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

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

This half-year financial report was authorized for issue by the directors on 31 August, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2019 and any public announcements made by Dragontail Systems Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those adopted and disclosed in the Group’s annual financial report for the financial year ended 31 December 2019.

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

Adoption of new and revised Accounting Standards

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/amendment	Effective for annual reporting periods beginning on or after
AASB 17 <i>Insurance Contracts</i>	1 January 2021

Notes to the consolidated interim financial report

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting basis and conventions

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

Going Concern

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

During the period ended 30 June 2020, the consolidated entity incurred losses of \$2,849,065 (30 June 2019: \$4,045,582), net cash outflows used in operating activities of \$2,135,405 (30 June 2019: \$2,790,665), and at that date had cash on hand of \$4,101,543 (31 December 2019: \$957,010).

The World Health Organisation announced that the new coronavirus disease (COVID-19) had become a pandemic on 11 March 2020. The consolidated entity has developed policies and procedures to address the health and wellbeing of employees. The full impact of COVID-19 outbreak continues to evolve as at the date of this report. As such, the Group is unable to estimate the effects of the COVID-19 outbreak on the consolidated entity's financial position, liquidity and operations in the 2021 financial year.

The consolidated entity's ability to continue as a going concern and to continue to fund its planned expanded activities is dependent on raising further capital and / or generating additional revenues from its operations and / or reducing operational costs. These conditions indicate a material uncertainty that may cast a significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

- The Directors of Dragontail Systems Limited have assessed the likely cash flow for the 12 month period from the date of signing this interim financial report and its impact on the consolidated entity and believe there will be sufficient funds to meet the consolidated entity's working capital requirements as at the date of this report.
- The consolidated entity 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. During the period, stage 1 was completed and the consolidated entity received A\$12M. Subsequent to 30 June 2020, a total of 36,538,462 convertible preference shares were converted into ordinary shares.
- 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 consolidated entity's products and services.
- The directors of Dragontail believe that in the event needed, the level of expenditure can be managed.

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

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.

Notes to the consolidated interim financial report

Significant Estimates and Judgements

Convertible Preference Share Liability

A convertible preference share ('CPS') was issued by the Group as part of a funding agreement (refer Note 6), which includes embedded derivatives (option to convert the securities to variable number of shares in the Group when an 'Adjustment Event' occurs. The CPS failed the fixed for fixed criteria of the accounting standards due to the redeemable event and conversion option terms (together referred to as "settlement options") as discussed in Note 6. These CPS are recognised as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the debt liability and the value of the equity components (right to dividend stream in the event the CPS is redeemed for cash) will equate to the proceeds received and subsequently the liability is remeasured at fair value at each reporting period. The fair value movements are recognised through profit or loss as finance costs/income.

Coronavirus (COVID-19) pandemic

On 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 outbreak continues to evolve at the date of this report. The Group is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity, and future results of operations during 2020 and 2021. Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2020 financial year.

Although the company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on the Group's results of future operations, financial position, and liquidity in the fiscal year 2020 and 2021.

3. INVESTMENT

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

Name	Country of Incorporation	% Equity Interest	
		30 June 2020	30 June 2019
Dragontail Systems Limited ("DTS Israel")	Israel	100%	100%
DragonTail Systems USA Inc. ("DTS USA")	USA	100%	100%
DragonTail Systems Canada Inc. ("DTS Canada")	Canada	100%	100%

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

Notes to the consolidated interim financial report

4. EXPENSES

	Consolidated 30 June 2020 USD	Consolidated 30 June 2019 USD
Operating expenses:		
Salaries and related expenses	784,744	784,585
Travel expenses	46,771	103,751
	<u>831,515</u>	<u>888,336</u>
General and Administrative expenses:		
Salaries, related expenses and other expenses	752,114	959,220
Travel expenses	-	17,756
	<u>752,114</u>	<u>976,976</u>
Finance expenses:		
Finance/interest costs on Borrowings	384,427	-
Finance cost on Convertible Preference Shares (Refer Note 6)	633,923	-
Net exchange losses realised on foreign currency	99,089	45,809
Other finance costs/(income)	(245)	51
	<u>1,117,194</u>	<u>45,860</u>

5. BORROWINGS

	30 June 2020 USD	31 December 2019 USD
Loan – current	-	3,014,852

In July 2019, the Company signed on a loan agreement with Alceon Liquid Strategies Pty Ltd (Alceon), 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 10 for details).

The loan was repaid in full in conjunction with the settlement of the Convertible Preference Share funding (Funding)(see note 6). The Company and Alceon entered into a Set-off Deed under which Alceon's \$2,000,000 subscription under Stage 1 of the Funding was offset against the amount owing. The balance was paid out of the proceeds of the Stage 1 Funding.

In January 2020, the Company signed on a Term Sheet with Eldridge Industries to provide funding by way of a subscription for Convertible Preference Shares. Under the Term Sheet Eldridge also agreed to provide the Company with a short term Bridge Loan of US\$2 million to ensure that the Company had sufficient liquidity until the issue of the Convertible Preference Shares was completed.

Notes to the consolidated interim financial report

The material terms of the Bridge Loan were as follows:

1. Term: four months from Drawdown.
2. Repayment: in full at maturity or on completion of the issue of the Convertible Preference Shares.
3. Interest rate: 8% per annum.

The loan was repaid in full in conjunction with the settlement of the Convertible Preference Share funding (Funding)(see note 6). The Company and Eldridge entered into a Set-off Deed under which the US\$2,000,000 was off-set against Eldridge's subscription under Stage 1 of the Funding. The balance of Eldridge's stage 1 Funding was received in cash at completion.

6. CONVERTIBLE PREFERENCE SHARES

	30 June 2020 USD	31 December 2019 USD
Convertible preference shares at fair value through profit or loss ¹	8,874,890	-

¹On 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 ('CPS').

The Company completed stage 1 of the funding during June 2020 and issued 92,307,964 convertible preference shares, for a total of A\$12m (USD \$8.3M).

- 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 raised 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.
- Each convertible preference share entitles the holder to discretionary dividend rate of 8% per annum where the CPS are redeemed for cash.
- Each CPS confers all of the rights to one ordinary Share. Upon conversion, one CPS will convert into one ordinary share, any deferred amount interest cease to accrue and be deemed to be written off.
- The Company used the funds to repay its A\$4.3m corporate loan with Alceon and the US\$2m bridge loan provided by Eldridge, thus discharged 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 CPS can be redeemed for cash only in the event of a liquidation, acquisition/merger, purchase of substantially all assets or an acquisition of substantially all licences in respect of the Company's intellectual property.
- Under the agreement, an 'Adjustment Event' will vary the conversion ratio resulting in a variable number of shares being issued. An Adjustment Event includes any rights issue, bonus issue or other issue of ordinary shares at a price lower than 90% of the VWAP during the VWAP period, issue of options and any reconstruction or reorganisation of the Company's share capital.

As there is no maturity attributable to the CPS, an amortised cost valuation would not be appropriate therefore the Company has recognised the whole instrument at fair value through profit or loss. On initial recognition the debt value of the CPS was calculated based on underlying share price on issue date, with the residual equity value being considered as \$nil on the basis that cash redemption is considered remote, and therefore no dividend stream is expected to be paid by the Company. Subsequent to initial recognition, the fair value of CPS is revalued based on probability of settlement options with the difference being recognised as finance income/expense through profit or loss.

Notes to the consolidated interim financial report

At 30 June 2020 it was assessed that the most likely outcome is the conversion of the CPS to ordinary shares (at 100% probability) and hence the debt is fair valued based on the share price of the company at balance date being USD \$8,874,890 (A\$12,923,077), being 92,307,964 CPS at A\$0.14 fair value per CPS and a finance cost of USD \$633,923 was recognised in the profit or loss statement.

On July 9, 2020, 4,040,954 convertible preference shares were converted into 4,040,954 ordinary shares and on July 23, 2020, 32,497,508 convertible preference shares were converted into 32,497,508 ordinary shares.

7. ISSUED CAPITAL

	As at 30 June 2020		As at 31 December 2019	
	No.	USD	No.	USD
Ordinary Shares	248,883,418	18,668,069	248,883,418	18,668,069

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

	Consolidated	
	No	USD
Opening balances as at 1 January 2019	248,000,000	18,348,386
Shares bought back on market and cancelled ¹	(2,000,000)	(1)
Issue of shares on exercise of options	2,266,273	282,547
Closing balance 30 June 2019	248,266,273	18,630,932
Opening and closing balances as at 30 June 2020	248,883,418	18,688,069

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

8. RESERVES

	Consolidated 30 June 2020 USD	Consolidated 31 December 2019 USD
Share based payments reserve	2,336,781	2,232,922
Foreign currency translation reserve	165,255	103,968
Closing balance	2,502,036	2,336,890

Notes to the consolidated interim financial report

9. LOSS PER SHARE

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

	30 June 2020 USD	30 June 2019 USD
Loss attributable to ordinary equity holders	(2,849,065)	(4,045,582)
Weighted average number of shares	248,883,418	247,847,517
	248,883,418	247,847,517
Basic loss per share calculation (cents) (loss/weighted average shares)	(1.14)	(1.63)

10. SHARE BASED PAYMENTS

Share-based Payments Reserve

	30 June 2020 USD
Opening balance 31 December 2019	2,232,922
Options exercised during the period	-
Issued to Employees under the Employee incentive Option plan ¹	103,859
Closing balance 30 June 2020	2,336,781

Share-based Payments Expense

	30 June 2020 USD	30 June 2019 USD
Issued to Employees under the Employee Incentive Option Plan ¹	103,859	582,133
Total expense	103,589	582,133

Options

¹ The Company has issued options to employees pursuant to the Employee Incentive Option Plan approved at the Annual General Meeting held on 21 May 2018. The issue of options is valued at the fair value on grant date. The value of the options granted will be expensed in accordance with the vesting periods of the options. The fair value of the options is determined using Black-Scholes option valuation methodology and applying the following inputs:

Notes to the consolidated interim financial report

	Options Expiring 12 April 2025	Options Expiring 15 Nov 2025	Options Expiring 15 Nov 2025	Options Expiring 21 Nov 2026	Options Expiring 21 Nov 2026
Number of Options	8,725,000	3,650,000	3,400,000	1,225,000	1,700,000
Exercise Price (AUD)	\$0.22	\$0.15	\$0.00	\$0.15	\$0.22
Grant Date	12 April 2018	15 May 2019	15 May 2019	21 Nov 2019	21 Nov 2019
Expiry Date	12 April 2025	15 Nov 2025	15 Nov 2025	21 Nov 2026	21 Nov 2026
Risk Free Rate	1.95%	1.55%	1.55%	0.77%	0.77%
Volatility	100%	100%	100%	100%	100%
Total Value of Options (AUD)	\$995,775	\$542,202	\$612,000	\$125,490	\$111,849
Total Value of Options (USD)	\$736,276	375,041\$	423,320\$	87,981\$	\$78,417
Value expensed in period ended 30 June 2019	30,768\$	191,365\$	360,000\$	-	-
Value expensed in period ended 30 June 2020	\$31,654	\$28,293	-	\$23,235	\$20,676

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Valuation techniques to derive level 3 fair values

Convertible preference shares at fair value through profit or loss

The fair value of the convertible preference shares ('CPS') is determined based on probability being applied to the each of the fair value of the conversion option (i.e. Number of CPS x Share Price) and the fair value of the redemption option (being amount payable on redemption). The adjusting event represents a ratchet feature and has nil value until one of the adjusting event takes place. The ratchet feature adjusts the conversion ratio of the CPS to ordinary shares of the company. The observable input in the valuation of the CPS is the share price and the unobservable inputs are the probability rate, the redeeming, the adjusting events and credit risk of the company.

12. RELATED PARTY TRANSACTIONS

There were no other transactions with related parties during the half-year other than those that were on the same basis as stated in the 31 December 2019 Annual Report.

13. CONTINGENT LIABILITIES & COMMITMENTS

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

Notes to the consolidated interim financial report

14. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 9 July 2020, 4,040,954 convertible preference shares were converted into 4,040,954 ordinary shares.

On 23 July 2020, 32,497,508 convertible preference shares were converted into 32,497,508 ordinary shares.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs in future financial years.

15. SEGMENT NOTE

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

	Segment Revenue and expenses	
	Consolidated Half-Year ended 30 June 2020	Consolidated Half-Year ended 30 June 2019
	USD	USD
Sale of software in development	549,692	409,218
Research and Development (R&D) tax incentive	474,450	512,492
Total for continuing operations	1,024,142	921,710
Research and Development expenses	(962,028)	(2,381,051)
Finance expenses (net of finance income)	(1,117,194)	(45,860)
Selling and marketing expenses	(106,498)	(92,936)
General and administrative expenses	(752,114)	(976,976)
Operating expenses	(831,515)	(888,336)
Share based payment expenses	(103,859)	(582,133)
Total revenue/(expenses) before tax (continuing operations)	2,849,065	(4,045,582)

	Consolidated 30 June 2020	Consolidated 31 December 2019
	USD	USD
Segment Assets	4,378,658	1,329,110
Unallocated assets	-	-
Total assets	4,378,658	1,329,110

Notes to the consolidated interim financial report

15. SEGMENT NOTE (CONTINUED)

	Consolidated 30 June 2020 USD	Consolidated 31 December 2019 USD
Segment Liabilities	9,582,992	753,143
Unallocated liabilities	-	-
Total Liabilities	9,582,992	753,143

Geographic information

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

	Consolidated Half-Year ended 30 June 2020 USD	Consolidated Half-Year ended 30 June 2019 USD
Israel	23,618	20,275
Australia	351,113	243,567
Canada	137,868	94,036
USA	37,093	51,340
Total revenues	549,692	409,218

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

	Consolidated Half-Year ended 30 June 2020 USD	Consolidated Half-Year ended 30 June 2019 USD
Customer A	32,793	35,155
Customer B	151,369	178,430
Customer C	29,751	37,503
Customer D	-	41,670
Customer E	151,663	-

Directors' declaration

The Directors of the Group declare that:

1. The financial statements and notes, as set out on pages 5 to 18:
 - (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the economic entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Ido Levanon

Director

Israel

31 August 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Dragontail System Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Dragontail System Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including Independence Standards) (the Code) that are relevant to the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

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

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

BDO Audit (WA) Pty Ltd

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

Neil Smith

Director

Perth 31 August 2020