31 January 2017

The Company Announcements Office
ASX Limited
Via E Lodgment

December 2016 Quarter Update

Highlights

- Dragontail Systems officially lists on the ASX following a significantly oversubscribed IPO that raised $6 million.
- Partnership secured with AT&T to streamline the food delivery process using IoT innovation.
- Dragontail Systems successfully expands products with the launch of the world's first quality control camera and sensor system for the pizza restaurant industry; company expects applications to other restaurant types in the second half of 2017.
- Post the reporting period, Dragontail Systems secures agreement with leading Point-of-Sale (POS) provider Revel Systems to integrate the Algo Dispatching System into its POS platform.
- Post the reporting period, Dragontail completes the commercial rollout of the Algo Dispatching System French version in 10 Pizza Hut stores in Quebec, Canada; rollout continues in more Quebec Pizza Hut stores and Dragontail Systems expects to double its rollout in that region.
- Cash balance of $5,774,113 as at 31 December 2016; cash being reinvested in the Dragontail Systems business as it continues to expand its product offering customer base and geographic reach.
- Dragontail confident of further growth in its customer pipeline and strengthening of its geographic reach over the remainder of FY2017.
- Launch of the Algo Dispatching System and quality control camera and sensor system in the first Australian store expected in the next few months.

Dragontail Systems Limited (ASX: DTS, the "Company") is pleased to release its inaugural quarterly report for the period ended 31 December 2016 following a significantly oversubscribed IPO that raised $6 million and the Company's subsequent listing on the Australian Securities Exchange (ASX) on December 20, 2016.

Operating Overview

Dragontail Systems continues to make significant progress on the development and commercialisation of its novel proprietary food service technology, the Algo Dispatching System (the Algo), which transforms the way Quick Service Restaurants (QSR) operate from order through to delivery.

During the quarter, the Company signed a key partnership agreement with one of the largest Telecommunications and ICT Companies in the US, AT&T[1]. Under the agreement, Dragontail Systems will use AT&T's highly reliable mobile network for the Algo, giving the Company an important edge in becoming the industry leader in the large and growing QSR sector.

The deal also allows AT&T to sell the Algo to AT&T's enterprise customers in the QSR sector. AT&T is a leading service provider to the QSR sector and counts McDonald's, Starbucks and Yum! Brands as customers. The agreement provides a new sales channel for the Algo in the US where the QSR and fast food market is estimated to be worth circa US$227bn[2].

Post the reporting period, Dragontail Systems signed another significant deal with Point of Sales (POS) platform provider, Revel Systems, to integrate the Algo into Revel's POS solutions. Revel is a leading POS system developer with many large clients in the QSR industry, including the world's second largest chicken QSR, Popeye's Chicken and US ice cream chain Twistee Treat. Under the deal, Revel is also acting as a reseller of the Algo to its extensive QSR customer network through a mutual partner referral program.

During the quarter, Dragontail Systems also expanded its product line with the launch of the world's first quality control camera and sensor system for the pizza restaurant industry. The Camera Cut Station Unit (CCSU) is the first system in the world to monitor key elements of food preparation and cooking in a restaurant's kitchen to improve the quality and integrity of pizzas and other foods.

The system contains wireless sensors that monitor the kitchen, fridge and oven temperature and immediately alerts staff to any issues. The camera also analyses the quality of ingredients and ensures the correct ones have been used. It sends a picture of the meal directly to the customer's mobile phone along with the temperature and time its comes out of the oven to improve the overall customer experience.

Dragontail Systems plans to expand the CCSU offering to other restaurants including burger, taco and sandwich establishments in the second half of 2017. The Company is receiving strong interest in the camera from a number of potential customers and expects to have the first installation in Australia in the next few months.

Post the reporting period, Dragontail Systems also continued to expand its geographical reach with the rollout of the Algo to Pizza Hut stores in Quebec, Canada. As of January 31, 2017, the system has so far been installed into around 10 Pizza Hut stores in the province and the Company is looking to double the number of stores in the Quebec roll out.

Canada represents a significant market opportunity for Dragontail with more than 16,000 QSR restaurants generating several billion US dollars in annual revenue[3]

Dragontail has also released a French version of the Algo, providing an option for use in French speaking restaurants in Quebec.

---

[1]AT&T products and services are provided or offered by subsidiaries and affiliates of AT&T Inc, under the AT&T brand and not by AT&T Inc.

2 Source: https://www.ibisworld.com/industry/default.aspx?indid=1980.

3 Source: https://www.ibisworld.ca/industry/fast-food-restaurants.html.

Corporate and Financials

Following its oversubscribed IPO in December, the Company is well resourced to continue the development and commercialisation of the its revolutionary Algo Dispatching System.

The Company's cash balance as at 31 December 2016, was $5,774,113. Going forward, Dragontail is confident of further growth in its customer pipeline and strengthening of its geographic reach over the remainder of FY2017.

Outlook

In the near term, the Company will continue to rollout of the Algo into Pizza Hut stores in Canada and is also expecting to sign additional customers off the back of the agreements with Revel Systems and AT&T. Dragontail Systems is also expecting increased sales of the CCSU following strong interest from a number of major QSR restaurants and looks forward to providing investors with further updates on its progress in the near term. The launch of the Algo in the first Australian store is expected in the next few months.

"We are confident that the success achieved during this quarter and beyond in both expanding the rollout of the Algo and increasing our product range and customers puts us in a very strong position for continued growth over the remainder of FY2017," said Dragontail Systems Managing Director, Ido Levanon. "We are focusing our energy on strengthening our offering and strengthening our international presence, which has already resulted in the launch of additional products as well as strategic partnerships with key players in the industry".

End.

Company Secretary:

Deborah Ho
deborah@tridentms.com.au
+61 8 6211 5099

Media Enquiries:

Ben Grubb
Media and Capital Partners
ben.grubb@mcpartners.com.au
+61 414 197 508

About Dragontail Systems

Dragontail is revolutionising the Quick Service Restaurant (QSR) industry with its Algo System, which uses a sophisticated patented algorithm to optimise and manage the entire food preparation process from order to delivery. The Algo is the first system in the world to fully automate and streamline the kitchen flow to deliver immediate and significant returns on investment to fast food and quick service restaurants. The Algo is setting a new standard for the global industry with a number of chains, such as Pizza Hut in North America and Israel, and a large Israeli burger chain already using the system.

+*Rule 4.7B*

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Dragontail Systems Limited and its controlled entities

ABN	**Quarter ended ("current quarter")**
614 800 136	31 December 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months)** **(refer to note 4 on page 5)** **$A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	9	9
1.2	Payments for		
	(a) research and development	(6)	(6)
	(b) product manufacturing and operating costs	(29)	(29)
	(c) advertising and marketing	(11)	(11)
	(d) leased assets	-	-
	(e) staff costs	(33)	(33)
	(f) administration and corporate costs	(241)	(332)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(311)**	**(401)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-

	Consolidated statement of cash flows	Current quarter $A'000	Year to date (12 months) (refer to note 4 on page 5) $A'000
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(150)	(150)
2.4	Dividends received (see note 3)	-	-
2.5	Other – cash acquired upon acquisition of subsidiaries.	136	136
2.6	**Net cash from / (used in) investing activities**	**(14)**	**(14)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	6,000	6,000
3.2	Proceeds from issue of convertible notes	544	862
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(597)	(674)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**5,947**	**6,188**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of quarter/year to date	151	-
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(311)	(401)

	Consolidated statement of cash flows	Current quarter $A'000	Year to date (12 months) (refer to note 4 on page 5) $A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(14)	(14)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,947	6,188
4.5	Effect of movement in exchange rates on cash held	1	1
4.6	**Cash and cash equivalents at end of quarter**	**5,774**	**5,774**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	5,774	151
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**5,774**	**151**

6.	Payments to directors of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	62
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

1. Corporate advisory fees,
2. Office services;
3. Legal fees; and
4. Reimbursements.

7.	Payments to related entities of the entity and their associates	Current quarter $A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	150
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Loan made to Dragontail Systems Limited (Company Number 514981232) ('DT Israel') for working capital funds prior to the acquisition of DT Israel.

8.	Financing facilities available *Add notes as necessary for an understanding of the position*	Total facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

-

9.	Estimated cash outflows for next quarter	$A'000
9.1	Research and development	132
9.2	Product manufacturing and operating costs	151
9.3	Advertising and marketing	135
9.4	Leased assets	-
9.5	Staff costs	126
9.6	Administration and corporate costs	162
9.7	Other (provide details if material)	-
9.8	**Total estimated cash outflows**	705

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	Dragontail Systems Limited (Company Number 514981232) ('DT Israel')	-
10.2	Place of incorporation or registration	Israel	-
10.3	Consideration for acquisition or disposal	$26,000,000	-
10.4	Total net assets	$1,851,200	-
10.5	Nature of business	Development and marketing of Algo technology that optimises restaurant operations.	-

Compliance statement

1   This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2   This statement gives a true and fair view of the matters disclosed.

Sign here: _____   Date: 31st January 2017
                     (Director)

Print name: Ido Levanon

Notes

1.   The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.

2.   If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3.   Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4.   Dragontail Systems Limited (ACN 614 800 136) was incorporated on 14 September 2016 and therefore, the Year To Date figures represent the cash movement of the Company from 14 September 2016 to 31 December 2016.