

DRAGONTAIL DECEMBER 2020 QUARTERLY ACTIVITIES REPORT ANOTHER QUARTER OF GROWTH

Highlights

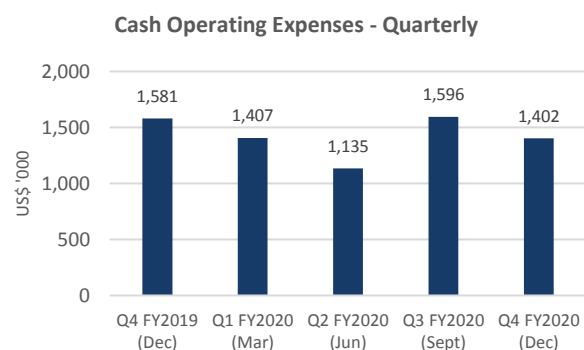
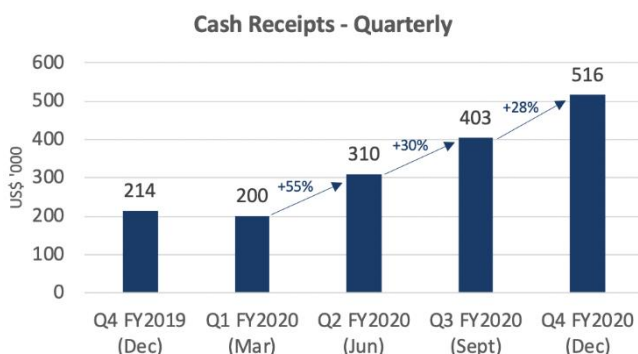
- Continued strong growth in Cash Receipts from Customers for the December ended quarter, Q4 FY2020, of US\$516k¹, up 28% compared to prior quarter of US\$403k, and up 141% on Q4 FY2019 of US\$214k.
- Cash Operating Expenses held constant for the quarter, demonstrating a continued trend of the business scaling well globally, with presence on all continents.
- Second round of funding commitment of US\$4.2M by Eldridge confirmed during the quarter (subject to shareholder approval scheduled for 3 February).
- Contracted stores more than doubled in FY2020 with 9,291 stores at end of Q4 FY2020 (up on 3,814 stores at end of Q4 FY2019), and total installed stores increased to 2,663 stores from 2,003 stores (up 33%), achieved despite difficult COVID circumstances and using remote installation measures.
- Key agreements signed with leading USA QSR chains like Papa John's, Sweetgreen and a large QSR Franchisee, which reflects the initial success in the Company's effort to expand into the USA market.
- New integrated drone food delivery optimization capability was implemented into the Algo Platform following winning of a government tender.
- Customer retention: Dragontail continues to celebrate no single customer switching away from its game changing technology.
- Strong cash balance: US\$2.2M¹ per 31 December 2020 plus US\$4.2M from a committed strategic fund raising expected to be received within 30 days following shareholder approval.
- Post quarter end: appointment of two US based Directors to the Board – Mr Jon Weber & Mr Jeff Wilbur.
- *Outlook: With the recent round of fund raising combined with the pre-existing cash balance at the end of December 2020 and consistently growing cash receipts, the Company has a very strong cash runway to grow the business substantially in calendar 2021, while maintaining a firm grip on the cost structure.*

12 January 2021: Dragontail Systems Limited (ASX: DTS, the “Company” or “Dragontail”), bringing process efficiency and improving customer satisfaction through its Algo SaaS platform and QT AI camera system to the Quick Service Restaurant (QSR) and foodservice industry, is pleased to report its Quarterly Activities Report for the three months ended 31 December 2020 (Q4 FY 2020). The Appendix 4C Quarterly Cash Flow Report is attached.

Financial results (December 2020 / US\$ reporting currency)¹

Cash Receipts from Customers for the December ended quarter, Q4 FY2020, were US\$516k, up 28% compared to prior quarter of US\$403k, Q3 FY2020, and up 141% on Q4 FY2019 of US\$214k.

Cash Operating Expenses² were held constant for the quarter, demonstrating a continued trend of the business scaling well globally with presence on all continents, under its SaaS recurring revenue business model.



¹ Unaudited

² Cash Operating Expenses exclude Australian government R&D cash tax refund amounting to US\$350k in FY2020.

Fund raising

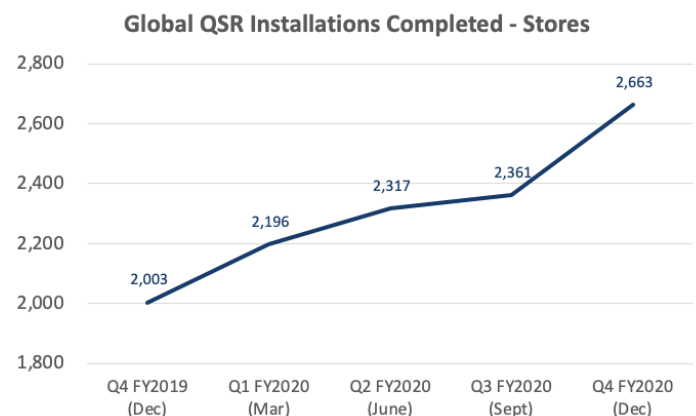
The second round of strategic fund raising is well underway following the announcing of Eldridge’s commitment of US\$4.2M (AU\$5.25M) (announced 30 November 2020) to move ahead with its investment. Eldridge, one of the Company’s largest USA investors, a holding company with a unique network of businesses across finance, technology, real estate, and entertainment, is executing its option by proceeding with the second stage of the strategic funding under the binding subscription agreement signed and announced on 23 March 2020.

Receipt of the funds is subject to a final step of obtaining shareholder approval. An Extraordinary General Meeting has been set for 3 February 2021 with the funds expected to be received within 30 days of approval. Details of the Notice of Meeting and Proxy Forms can be found in the 4 January 2021 announcement or is available on the Company’s website at <http://www.dragontailsystems.com/investors/>.

Operational update

The pipeline of stores contracted to receive installations (Algo Platform and/or QT camera) more than doubled in FY2020 with 9,291 stores at end of Q4 FY2020 (up on 3,814 stores at end of Q4 FY2019), and total installed stores increased to 2,663 stores from 2,003 stores at the end of Q4 FY19 (up 33%).

Despite COVID circumstances and restrictions, installations in Q4 were conducted on 4 continents and across 12 new countries, all using remote measures. The contracted stores platform obtained by the Company, ensures the strengthening of the positive trend of installations as soon as the conditions allow it, subject to the global presence of the COVID.



Global Expansion Continued



Key developments during the quarter

Strong progress in strategic expansion into the US (announced on 24 November 2020)

Key agreements were signed with leading USA QSR chains Papa John's, Sweetgreen and large QSR Franchisee, which reflects the initial success in the Company's effort to expand into the USA market.

Papa John's: A Master Services Agreement (MSA) was signed with Papa John's US, a prominent pizza chain operating in many locations across the US; the first phase will be a trial of Dragontail's curbside food pickup feature. The curbside technology is a developmental module within the Algo Platform focused on optimizing food readiness for customer safe pickup.

Entry into mobile Food Truck sector: A Memorandum of Understanding (MOU) was signed with Curb'd Inc., to implement unique innovative features of Dragontail's Algo Platform and the QT AI Camera into Food Trucks across the US. Curb'd creates immersive public experiences in the area of a parking space. The Food Truck sector in the US is a US\$1.2bn per annum industry (2020)¹.

Under the agreement, the partnership will bring Food Truck operators a whole new level of operational streamlining, customer communications, AI-based recommendations on optimized location and scheduling the customer's arrival for food collection or home delivery. This is the product of newly assembled and groundbreaking features of the Algo Platform and QT AI Camera. These features will provide Food Trucks with improved operational efficiency as well as the means to overcome the adverse effects of COVID-19 and support expansion of their offering, while increasing the customer base and revenue (strengthening their presence and availability thanks to the continuation of activity despite lock-downs or avoidance of crowds).

Entry into 'Fast Casual' QSR segment with Sweetgreen: A Statement of Work (SOW) was signed with Sweetgreen, a fast growing chain that currently operating over 100 stores, to incorporate Dragontail's QT AI Camera system and the Algo Kitchen management into its stores across the US. Sweetgreen is a fast growing American 'fast casual' high-end salad restaurant chain that serves high quality, fresh and healthy salads. Sweetgreen will benefit from Dragontail's latest QT AI Camera groundbreaking modules, which will also generate a significantly higher per store revenue for Dragontail.

Major US QSR franchisee: A Statement of Work (SOW) was signed, system integration work is almost completed and rollout discussions are taking place with a major US franchisee operating in several hundred locations.

AT&T Partnership: The partnership with AT&T is being renewed and broadened giving Dragontail access to AT&T's substantial sales channel in the US to secure new customers and leverage mobile infrastructure assets.

Penetrating into new markets (announced on 1 October 2020)

More and more territories under Food Delivery Brands Group, a significant global pizza delivery franchisor, seek to join the Master Services Agreement (MSA) signed with Dragontail in July 2020, by signing Statements of Work (SOWs) as an interconnected agreement for installing the Algo Platform across their stores.

Food Delivery Brands Group is a multi-brand Pizza Delivery operator across Latin America and other markets with a presence in approximately 30 countries and 2,500 stores globally, operating with several brands (Telepizza, Pizza Hut, Apache, Jenos Pizza). As was the intention, a rollout to multiple markets is being conducted, after the successful completion of the integration in the first Latin America Market (Ecuador): Spain, Trinidad & Tobago, Colombia, Dominican Republic, Mexico and Puerto Rico.

Integration of drone food delivery optimization capability to the Algo Platform (announced on 8 December 2020)

The development of an integrated drone food delivery optimization capability into Dragontail's Algo Platform is a major innovation at the forefront of the industries that strive to improve delivery speed and customer service, and lower cost.

The new Algo Platform capability synchronizes and optimizes the food preparation process as well as schedules the drone for the food collection and delivery to the end customer in a single or multistep process.

This cutting-edge development will enable Dragontail to offer one-of-a-kind drone delivery capabilities globally based on the Algo Platform, also combining restaurant drivers and Aggregators and in the longer term, application into other addressable markets globally.

The drone transportation capability optimized with Dragontail's technology along with its partners, was won on the back of a tender issued by the Israeli Ministry of Transportation and the Innovation Authority with the cooperation of the Civil Aviation Authority to find new transportation solutions in dense urban environments. A short video demonstrating this unique technology is available here: <https://www.dragontail.com/watch-us-in-action/>.

Collaborations with leading Aggregators expanded (announced on 6 October 2020)

Relationships with leading Aggregators (third party delivery operators) continued to be expanded and form a key strategic role for Dragontail as it expands its global presence. New Aggregator collaborations were entered into with Uber Eats, Deliveroo, GRAB (acquired Uber south Asia) and FOOD PANDA.

Customer retention

The Company continues to celebrate the fact that since inception, not a single customer or even a single store ever switched away from its game changing technology, proving the fact that once you start using Dragontail's game changing technology, you never go back. Moreover, several of the recent new customers that have opted to start using Dragontail's product previously used other solution providers in the last mile delivery area, however, who do not provide Dragontail's full kitchen integration capability with significant operational benefit for its clients.

Corporate update

Cash position

The Company has no outstanding loans, and was holding a cash balance at the end of the quarter (31 December 2020) of US\$2.2M. This excludes the US\$4.2M from the committed strategic fund raising (Eldridge) expected to be received in February (see commentary in prior paragraph).

Director appointments

Post quarter end, two US based Directors were appointed to the Board, Mr Jon Weber and Mr Jeff Wilbur (announced on 4 January 2021). Jon and Jeff both bring deep experience in the USA QSR industry.

Other

As required to be disclosed under ASX Listing Rules: Payments to related parties amounted to US\$68K. This amount shown in the Appendix 4C under Section 6, Payments to related parties of the entity and their associates, relates to directors' fees, management and administrative services.

Expenditure in the December ended quarter relating to the ongoing roll-out of the Algo Platform and QT AI camera system amounted to cash outflows of US\$1.4M (Section 1.2 of Appendix 4C), resulting in a Net Cash from Operating Activities outflow of US\$0.87M (Section 1.9 of Appendix 4C).

Outlook

Ido Levanon, Dragontail's Managing Director Commented: "In the December ended quarter, Dragontail had some great wins in the US, signing strategic agreements with strong partners and QSR chains. We demonstrated in FY2020 our ability to scale and deliver cash revenue growth each quarter, with the December 2000 quarter cash inflow being almost 2.5x the December 2019 figure, while holding our operating expenses constant.

With the recent round of fund raising combined with our pre-existing cash balance at the end of December 2020 and consistently growing cash receipts, we have a very strong cash runway to grow the business substantially in calendar 2021, while maintaining our firm grip on our cost structure.

Operationally, we have been able to build diverse commercial channels of activity that will promote the company – channels that have maintained and promoted the Company's traditional activities, as well as new and innovative channels that can leverage us both in terms of technology and penetrating other relevant segments. This represents a significant jump in the scope of the Company's activity – new collaborations, new areas of activities, new partners, as well as an increase in the number of contracted and installed stores. With that in mind, having the support of our investors, including one of our major US investors - Eldridge, we look to continue to bring to our clients and their customers, our exciting technological breakthrough in the Quick Service Restaurant arena“.

This ASX Announcement was approved and authorised by Dragontail's Managing Director.

Ido Levanon, CEO
P: +61 3 9010 5759

Glen Zurcher, Investor Relations
P: +61 420 249 299 / glen@viriair.com

About Dragontail Systems

Dragontail is revolutionising the Quick Service Restaurant (QSR) and foodservice industry with its core technology offering being its patented **Algo Platform** and **QT AI camera system**, sold under a cloud-based monthly subscription-based Software-as-a-Service (SaaS) revenue model which results in time and cost savings, and improved customer satisfaction through:

- Optimising and managing kitchen process task flow and timing from order to delivery
- Checking food quality and consistency
- Providing customers visibility over their food orders
- Acting as a valuable training tool for staff
- Controlling for food hygiene and sanitisation
- Managing driver activities leading to increased efficiency

The **Algo Platform** is the first system in the world to fully automate and streamline the kitchen flow to deliver an immediate and significant return on investment to fast food and quick service restaurants. The Algo integrates into a QSR's point of sale (POS) system.

The **QT AI camera** system's sensor and camera automatically monitor the preparation and cooking process in the kitchen. Using proprietary patented advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient. The QT has been upgraded in 2020 for hygiene and sanitisation checking. Dragontail's offering consists of:

1. **Total Technology solution:** Algo Platform + POS + online ordering developed by Dragontail in partnership, resulting in a full and ready integration).
2. **Algo Platform or full Algo:** Ready to integrate into an existing QSR POS system, managing the entire food preparation process from order to delivery.
3. **Algo Lite:** A delivery module – driver tracking and order aggregation. A QSR may begin with this system and migrate across to the full Algo over time.
4. **QT AI camera quality system:** Proprietary developed camera hardware and software used to quality control food preparation.

Dragontail is rolling out its technology globally and has signed contracts with leading QSR franchisors and franchisees including key contracts with Yum! Brands, TelePizza and household names like Dominos, Pizza Hut and KFC.

Collaborations: Developing relationships with Aggregators (third party delivery operators) to the QSR sector have been identified as integral to Dragontail's growth strategy. Collaborations now cover all leading operators globally (including Deliveroo, DoorDash, Grab and FOOD PANDA) which have been readied with integrations between the Algo Platform and Aggregators' technology systems, now being largely complete.

Dragontail has worked for some time with point of sale (POS) operators to the QSR sector and has formed strong compatibility with a number of their systems. In addition, Dragontail has developed its own fully POS aligned offering found in its Total Technology solution product, under a joint venture. This product has a significantly stronger revenue model over Dragontail's other product lines and is positioned to support QSRs who are wanting a ready to go fully integrated system. In addition, Dragontail announced a number of collaborations in late 2020 in the areas of drone food delivery (Israel) and food trucks (US).

For more information, visit www.dragontail.com.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Dragontail Systems Limited

ABN

614 800 136

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	516	1,429
1.2 Payments for		
(a) research and development	(531)	(1,923)
(b) product manufacturing and operating costs	(436)	(1,876)
(c) advertising and marketing	(99)	(283)
(d) leased assets	-	-
(e) staff costs	(199)	(806)
(f) administration and corporate costs	(137)	(640)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	0.5	0.5
1.5 Interest and other costs of finance paid	(1)	(7)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	14	526
1.8 Other (provide details if material)	-	(6)
1.9 Net cash from / (used in) operating activities	(872.5)	(3,585.5)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(11)	(41)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(11)	(41)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	8,271
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(123)
3.5	Proceeds from borrowings	-	2,000
3.6	Repayment of borrowings	-	(4,965)
3.7	Transaction costs related to loans and borrowings	-	(308)
3.8	Dividends paid	-	-
3.9	Other (Loan refund from an employee)	2	11
3.10	Net cash from / (used in) financing activities	2	4,886

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,013	965
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(872.5)	(3,585.5)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11)	(41)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2	4,886
4.5	Effect of movement in exchange rates on cash held	69.5	(23.5)
4.6	Cash and cash equivalents at end of period	2,201	2,201

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	2,051	2,898
5.2	Call deposits	150	115
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)	2,201	3,013

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	68
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(872.5)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,201
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,201*
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.52*
* Excludes US\$4.2M from a committed strategic fund raising expected to be received within 30 days following shareholder approval.	
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: #N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: #N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: #N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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.

Date: January 12, 2021

Authorised by: Ido Levanon
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.