

DRAGONTAIL JUNE 2021 QUARTERLY ACTIVITIES REPORT

Highlights

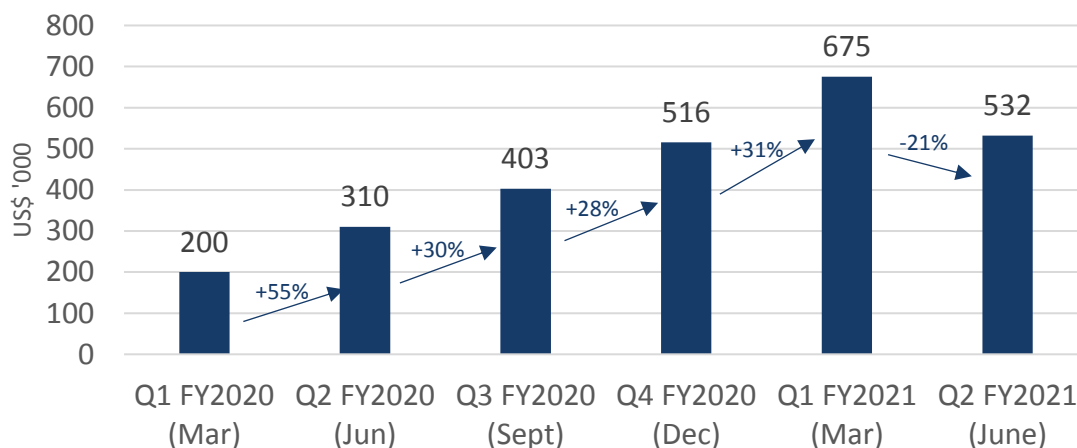
- Cash Receipts from Customers for the June ended Quarter, Q2 FY2021, were US\$532k, a 21% reduction compared to prior quarter (Q1 FY2021), primarily due to timing of receivables. Cash receipts grew 71% compared to the prior year corresponding quarter, Q2 FY2020.
- Dragontail entered into a Scheme Implementation Deed with Yum! Connect Australia Pty Ltd (YCA) (announced 27 May 2021), an entity controlled by Yum! Brands, Inc. (Yum), under which YCA undertakes to acquire 100% of the issued capital of the Company (on a fully diluted basis) for an aggregate consideration of A\$93.5M (Transaction). The Transaction is to be implemented by way of a share Scheme of Arrangement (Scheme).
- The Scheme Booklet contains an explanatory statement providing information about the Scheme, an Independent Expert's Report and notice of the Scheme Meeting. The Scheme Booklet has been lodged with the ASX, and was sent to shareholders on 22 July 2021, ahead of the Scheme Meeting which is to be held on 23 August 2021, where shareholders will vote on the Scheme.
- The Dragontail Board of Directors unanimously recommends that all Dragontail shareholders vote in favor of the Scheme in the absence of a superior proposal and supported by an Independent Expert Report expressing an opinion that the Scheme is in the best interests of Dragontail shareholders.
- Installation base has decreased compared to the previous quarter, Q1 2021, as certain stores that were initially installed with a COVID feature with the intention of then installing the full Algo, were temporarily put on hold due to the Scheme transaction being in process. The revenue impact is not considered to be material. The Company continues to provide its services and unique technology to its customers globally in parallel with working through the Scheme implementation.

27 July 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 30 June 2021 (Q2 FY2021). The Appendix 4C Quarterly Cash Flow Report is attached.

Financial results (June 2021/ US\$ reporting currency)¹

Cash Receipts from Customers for the June ended Quarter, Q2 FY2021, were US\$532k, a 21% reduction compared to prior quarter (Q1 FY2021), primarily due to the timing of receivables. There has also been a partial halt in store installations due to the impact of the announcement of Yum Scheme of Arrangement. However, with no significant impact to date on revenue going forward. Despite this, cash receipts grew 71% compared to the prior year corresponding quarter, Q2 FY2020.

Cash Receipts - Quarterly



¹ Unaudited

Cash position

The Company has no outstanding loans, and was holding a cash balance at the end of the quarter (30 June 2021) of US\$4.8M.

Other

As required to be disclosed under ASX Listing Rules: Payments to related parties amounted to US\$81k. 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.

The Net Cash used for Operating Activities in the June ended quarter is US\$1.323M (Section 1.9 of Appendix 4C), that were used for the continuous establishment of the company's field team in the US, supporting ongoing global activities and keep developing the next generation products for its customers.

Corporate update

Dragontail entered into a Scheme Implementation Deed with Yum! Connect Australia Pty Ltd (**YCA**), an entity controlled by Yum! Brands, Inc (**Yum**) (announced on 27 May 2021), under which YCA undertakes to acquire 100% of the issued capital of the Company (on a fully diluted basis) for an aggregate consideration of A\$93.5M (**Transaction**). The Transaction in respect of the fully paid ordinary shares of Dragontail (**DTS Shares**), which is to be implemented by way of a share Scheme of Arrangement (**Scheme**).

Under the terms of the Scheme, Dragontail shareholders will be entitled to receive A\$0.235 per DTS Share (**Scheme Consideration**) subject to all applicable conditions being satisfied or waived and the Scheme being implemented.

The below table shows Dragontail's share price (**VWAP**) relative to YCA's offer price over the last 12 months to 26 May 2021 (before announcement of the Scheme on 27 May 2021).

Dragontail's share price (VWAP) relative to YCA's offer price

VWAP Period	VWAP	YCA's premium
1 week	\$0.1809	30%
1 month	\$0.2032	16%
3 months	\$0.1836	28%
6 months	\$0.1652	42%
12 months	\$0.1408	67%

Dragontail's Board unanimously supports the transaction

The Dragontail Board of Directors unanimously recommends that all Dragontail shareholders vote in favor of the Scheme in the absence of a superior proposal. This recommendation of the Board is also supported by an Independent Expert Report expressing an opinion that the Scheme is fair and reasonable and in the best interests of Dragontail shareholders (the Report was provided as part of the Scheme Booklet to DTS's ordinary shareholders). Full details of the Scheme are set out in the Scheme Booklet, a copy of which is attached to the announcements made by the Company.

The Scheme Booklet including the Independent Expert's Report, lodged with the ASX on 19 July 2021, can be viewed [here](#).

To date, no bids have been received by other parties and no approaches have been received with expressions of interest.

Dragontail shareholders are encouraged to read the Scheme Booklet in its entirety before deciding whether or not to vote in favour of the Scheme at the Scheme Meeting. The Scheme Booklet provides information about how to lodge your proxy form and how to attend the Scheme Meeting.

Scheme implementation timetable (Condensed summary only. Dates are not final and subject to change):

Event	Date
Scheme Booklet (with Independent Expert's Report) dispatched	22 July 2021
Scheme meeting (Dragontail shareholders vote on the Scheme)	23 August 2021
Scheme implementation date	7 September 2021

Operational update

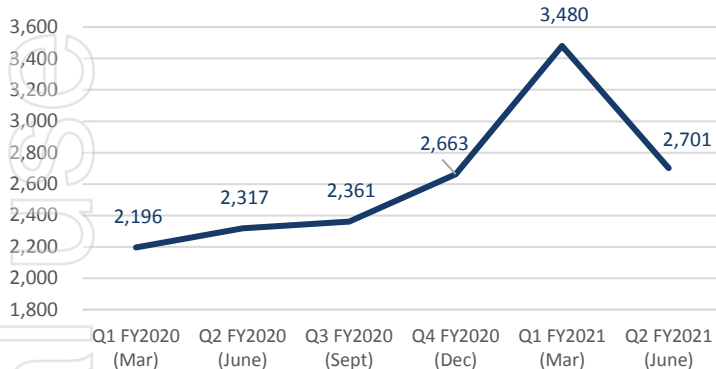
The Installation base has decreased compared to the previous quarter, Q1 2021, as certain stores that were initially installed with a COVID feature were temporarily put on hold, due to the Scheme transaction being in process.

The Company continues to provide its services and unique technology to its customers and manages its operations all over the globe in parallel with the transaction taking place. The Company maintains its work plans and goals both on the development aspects as well as commercially while maintaining its leading position in the food industry.

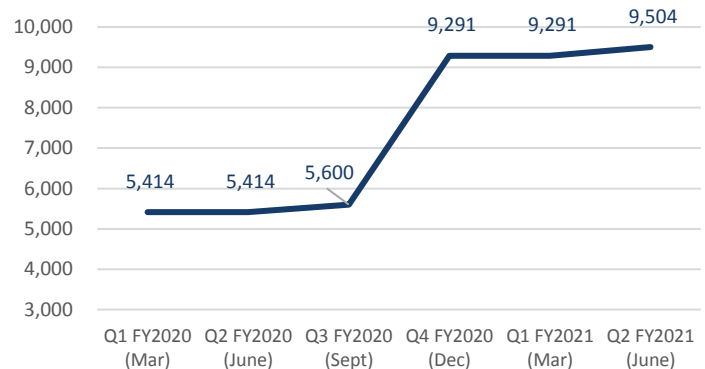
Following a Statement of Work signed with major US QSR franchisee (as announced on 24 November 2020), progress plans will be delayed due to a change of ownership of the franchisee.

At the same time the number of contracted stores continue to grow.

Global QSR Installations Completed - Stores



Global QSR Contracted - Stores



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

Ido Levanon, CEO
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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")

30 June 2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	532	1,207
1.2 Payments for		
(a) research and development	(585)	(1,285)
(b) product manufacturing and operating costs	(676)	(1,362)
(c) advertising and marketing	(146)	(283)
(d) leased assets		-
(e) staff costs	(251)	(504)
(f) administration and corporate costs	(197)	(404)
1.3 Dividends received (see note 3)		-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(2)	(7)
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	(1,323)	(2,636)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(17)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 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	(5)	(17)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	5,575
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	-	(86)
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 (Loan refund from an employee)	2	4
3.10	Net cash from / (used in) financing activities	2	5,493

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,364	2,201
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,323)	(2,636)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5)	(17)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2	5,493
4.5	Effect of movement in exchange rates on cash held	(81)	(84)
4.6	Cash and cash equivalents at end of period	4,957	4,957

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	4,807	6,214
5.2	Call deposits	150	150
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)	4,957	6,364

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	81
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>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
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)	(1,323)
8.2 Cash and cash equivalents at quarter end (item 4.6)	(4,957)
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	(4,957)
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.7
<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: 27 July 2021

Authorised by: Ido Levanon, Managing Director
(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.