



Dragontail Systems Limited & Controlled Entities

ACN 614 800 136

**CONSOLIDATED INTERIM FINANCIAL REPORT
for the half-year ended 30 June 2021**

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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 Jon Weber (*appointed 4 January 2021*)

Mr Jeff Wilbur (*appointed 4 January 2021*)

Company Secretary

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

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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 2021.

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
Mr Jon Weber	Non-Executive Director
Mr Jeff Wilbur	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 2021 was \$11,371,199 (2020: \$2,849,065).

Review of operations

- Dragontail entered into a Scheme Implementation Deed with Yum! Connect Australia Pty Ltd (YCA) (announced on 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 has to be implemented through 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 has been lodged to the ASX, and sent to shareholders on 22nd of July 2021, ahead of the Scheme Meeting which has to be held on 23rd of August 2021.
- The Dragontail Board of Directors unanimously recommends that all Dragontail shareholders vote in favour of the Scheme in absence of a superior proposal. This recommendation is supported by an Independent Expert Report, expressing the opinion that the Scheme is considered fair and reasonable and in the best interests of Dragontail shareholders.
- Installation base in Q2 2021 has decreased compared to the previous quarter, Q1 2021. This is because 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. At the same time the number of contracted stores continue to grow.
- The Company continues to provide its services and unique technology to its customers globally in parallel with working through the Scheme implementation. The Company maintains its work plans and goals both on the development side than commercially, while maintaining its leading position in the food industry.

Directors' report

Review of operations (continued)

- Dragontail has finalized both the stages 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 26 July 2021 the Company held an Extraordinary General Meeting at which shareholders approved the conversion of 80,769,232 convertible preference shares held by Eldridge DTS Funding, LLC into fully paid ordinary shares in Dragontail Systems Limited

On 27 July 2021, the Company received conversion notices from Eldridge DTS Funding LLC and Alceon Liquid Strategies Pty Ltd as trustee for the Alceon High Conviction Absolute Return Fund to convert 80,769,232 and 30,769,232 convertible preference shares respectively into a total of 111,538,464 fully paid ordinary shares. On 4 August 2021 the conversion took place and the fully paid ordinary shares were issued.

On 23 August 2021, DTS ordinary shareholders approved the Scheme of Arrangement (Scheme) to effect the acquisition by Yum Connect Australia Pty Ltd.

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 2021

DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF DRAGONTAIL SYSTEMS LIMITED

As lead auditor for the review of Dragontail Systems Limited for the half-year ended 30 June 2021, 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.



Ashleigh Woodley

Director

BDO Audit (WA) Pty Ltd

Perth, 31 August 2021

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2021

	Note	Consolidated Half-Year ended 30 June 2021 USD	Consolidated Half-Year ended 30 June 2020 USD
Revenue		1,248,817	549,692
Research and Development (“R&D”) tax incentive and others		327,558	474,450
		<u>1,576,374</u>	<u>1,024,142</u>
Research and development expenses		(1,349,351)	(962,028)
Selling and marketing expenses		(196,010)	(106,498)
General and administrative expenses	4	(944,413)	(752,114)
Operating expenses	4	(1,245,247)	(831,515)
Share based payment expenses	9	(49,070)	(103,859)
Total operating expenses		<u>(3,784,090)</u>	<u>(2,756,014)</u>
Operating loss		<u>(2,207,716)</u>	<u>(1,731,871)</u>
Net finance expense	4	(9,163,484)	(1,117,194)
Loss before income tax		(11,371,199)	(2,849,065)
Income tax benefit		-	-
Loss for the half-year		<u>(11,371,199)</u>	<u>(2,849,065)</u>
Other comprehensive income for the half-year			
Foreign currency translation differences		407,154	61,287
Total comprehensive loss for the half-year		<u>(10,964,045)</u>	<u>(2,787,778)</u>
Loss per share for the half-year attributable to members of Dragontail Systems Limited			
Loss per share (basic and diluted) (cents)	8	(3.98)	(1.14)

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 2021

	Note	Consolidated 30 June 2021 USD	Consolidated 31 December 2020 USD
Current Assets			
Cash and cash equivalents		4,960,565	2,202,877
Trade receivables		260,339	128,656
Inventories		31,388	30,232
Other receivables		483,694	156,575
Total Current Assets		5,735,986	2,518,340
Non-Current Assets			
Other receivables		12,512	12,625
Plant and equipment		56,482	63,127
Total Non-Current Assets		68,994	75,752
Total Assets		5,804,980	2,594,092
Current Liabilities			
Trade payables		536,624	426,643
Other payables		623,998	728,448
Convertible preference Shares	5	18,820,613	4,700,281
Total Current Liabilities		19,981,234	5,855,372
Total Liabilities		19,981,234	5,855,372
Net Liabilities		(14,176,254)	(3,261,280)
Equity			
Issued capital	6	22,136,247	22,136,247
Reserves	7	2,495,956	2,039,732
Accumulated losses		(38,808,457)	(27,437,259)
Total Deficiency in Equity		(14,176,254)	(3,261,280)

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 2021

	Share Capital USD	Foreign currency translation reserve USD	Shares based payments reserve USD	Accumulated losses USD	Total USD
2021 Consolidated					
Balance at 1 January 2021	22,136,247	(298,414)	2,338,146	(27,437,259)	(3,261,280)
Loss for the half-year	-	-	-	(11,371,199)	(11,371,199)
Foreign exchange movements	-	407,154	-	-	407,154
Total comprehensive (loss)	22,136,247	407,154	2,338,146	(11,371,199)	(10,964,045)
Transactions with owners, in their capacity as owners					
Issue of shares	-	-	-	-	-
Share based payment transactions	-	-	49,070	-	49,070
	-	-	-	-	-
Balance at 30 June 2021	22,136,247	108,740	2,387,216	(38,808,458)	(14,176,255)
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
Balance at 30 June 2020	18,688,069	165,255	2,336,781	(26,394,439)	(5,204,334)

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 2021

	Consolidated Half-Year ended 30 June 2021 USD	Consolidated Half-Year ended 30 June 2020 USD
Cash flows from operating activities		
Receipts from customers	1,117,134	760,881
Receipt from ATO for R&D incentive and others	-	494,222
Cash payments to suppliers and employees	(3,851,962)	(3,390,508)
Net cash flows (used in) operating activities	(2,734,828)	(2,135,405)
Cash flows from investing activities		
Payments for property, plant and equipment	(11,046)	(1,696)
Net cash flows (used in) investing activities	(11,046)	(1,696)
Cash flows from financing activities		
Proceeds from issue of convertible preference shares	5,543,830	8,240,967
Short term loan repayment	-	(3,014,852)
Interest paid	(174)	(209,572)
Net cash flows from financing activities	5,543,656	5,016,543
Exchange differences on cash balances and cash equivalents	40,094	265,090
Net (decrease) in cash and cash equivalents	2,757,688	3,144,533
Cash and cash equivalents at the beginning of the financial period	2,202,877	957,010
Cash and cash equivalents at the end of the financial period	4,960,565	4,101,543

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 2021.

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 2020 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 2020.

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.

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 2021, the consolidated entity incurred losses of \$11,371,199 (30 June 2020: \$2,849,065), net cash outflows used in operating activities of \$2,734,828 (30 June 2020: \$2,135,405), and at that date had cash on hand of \$4,960,565 (31 December 2020: \$2,202,877).

On 27 May 2021, the Group entered into a Scheme Implementation Deed with Yum! Connect Australia Pty Ltd (YCA), and entity controlled by Yum! Brands, Inc, under which YCA undertakes to acquire 100% of the issued capital of the Company (on a fully diluted basis) for aggregate consideration of A\$93.5M. As at the date of this report, the implementation of the Scheme remains subject to approval by the Federal Court of Australia.

In the event the Scheme Implementation Deed does not effectuate, 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:

Notes to the consolidated interim financial report

- The consolidated entity has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements, including its raising of A\$19.25M since March 2020 by way of issuing convertible preference shares to investors (refer Note 5).
- 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.

Significant Estimates and Judgements

Convertible Preference Share Liability

Convertible preference shares ('CPS') were issued by the Group as part of a funding agreement (refer Note 5), 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 5. 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.

3. INVESTMENT

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

Name	Country of Incorporation	% Equity Interest	
		30 June 2021	30 June 2020
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 2021 USD	Consolidated 30 June 2020 USD
Operating expenses:		
Salaries and related expenses	1,157,112	784,744
Travel expenses	88,135	46,771
	1,245,247	831,515
General and Administrative expenses:		
Salaries, related expenses and other expenses	944,413	752,114
Travel expenses	-	-
	944,413	752,114
Finance expenses:		
Finance/interest costs on Borrowings	105,802	384,427
Finance cost on Convertible Preference Shares (Refer Note 5)	9,035,250	633,923
Net exchange losses realised on foreign currency	67,101	99,089
Other finance costs/(income)	89,532	(245)
	9,163,484	1,117,194

5. CONVERTIBLE PREFERENCE SHARES

	30 June 2021 USD	31 December 2020 USD
Convertible preference shares at fair value through profit or loss ¹	18,820,613	4,700,281

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

On 3 February 2021 and on 17 March 2021 the Company's shareholders have approved stage two of a binding subscription agreement, for A\$19.25 million CPS

Stage 2 included an additional subscription of A\$5.25 million for 40,384,616 CPS with a share price of A\$0.13 from Eldridge Industries (together with its affiliates, "Eldridge") and A\$2 million for 15,384,616 CPS with a share price of A\$0.13 from Alceon Liquid Strategies Pty Ltd as trustee of the Alceon High Conviction Absolute Return Fund ("Alceon").

Notes to the consolidated interim financial report

On 9 February 2021 and on 24 March 2021, following receipt of funds, the Stage 2 CPS were issued to Eldridge and Alceon, respectively.

- The raise was led by strategically important US-based investors, Eldridge Industries (together with its affiliates, “Eldridge”) and Goudy Park Capital LP (together with its affiliates, “Goudy”).
- The issue price of each convertible preference share 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 ceases 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 ongoing 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 licenses 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 reorganization of the Company’s share capital.

As there is no maturity attributable to the CPS, an amortized cost valuation would not be appropriate therefore the Company has recognized 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 recognized as finance income/expense through profit or loss.

Accordingly, as at 30 June 2021 the fair value is based on the share price of the company at balance date, being USD \$18,820,613 (A\$25,095,154), being 111,538,464 CPS on issue at A\$0.225 fair value per CPS. A finance cost of USD \$9,035,250 (A\$11,711,538) was recognized in the profit or loss statement for the period ended 30 June 2021.

Subsequent to period end on 4 August 2021 all outstanding CPS were converted to fully paid ordinary shares in the Company (refer Note 13).

6. ISSUED CAPITAL

	As at 30 June 2021		As at 31 December 2020	
	No.	USD	No.	USD
Ordinary Shares	285,988,462	22,136,247	285,988,462	22,136,247

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

Notes to the consolidated interim financial report

	Consolidated	
	No	USD
Opening balances as at 1 January 2020	248,883,418	18,688,069
Shares bought back on market and cancelled ¹	(2,000,000)	(1)
Issue of shares on exercise of options	-	-
Closing balance 30 June 2020	246,883,418	18,688,069
Opening and closing balances as at 30 June 2021	285,988,462	22,136,247

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.

7. RESERVES

	Consolidated 30 June 2021 USD	Consolidated 31 December 2020 USD
Share based payments reserve	2,387,216	2,338,146
Foreign currency translation reserve	108,740	(298,414)
Closing balance	2,495,956	2,039,732

8. 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 2021 USD	30 June 2020 USD
Loss attributable to ordinary equity holders	(11,371,199)	(2,849,065)
Weighted average number of shares	285,988,462	248,883,418
	285,988,462	248,883,418
Basic loss per share calculation (cents) (loss/weighted average shares)	(3.98)	(1.14)

Notes to the consolidated interim financial report

9. SHARE BASED PAYMENTS

Share-based Payments Reserve

	30 June 2021 USD
Opening balance 1 January 2021	2,238,146
Options exercised during the period	-
Issued to Employees under the Employee incentive Option plan ¹	49,070
Closing balance 30 June 2021	2,287,216

	30 June 2020 USD
Opening balance 1 January 2020	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 2021 USD	30 June 2020 USD
Issued to Employees under the Employee Incentive Option Plan ¹	49,070	103,859
Total expense	49,070	103,859

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:

A reconciliation of the movement in the number of options on issue under the Employee Incentive Option Plan is as follows:

Options	Balance on 1 January 2020	Issued during the period	Exercised during the period	Lapsed during the period	Balance at 30 June 2021
Exercise Price AUD\$0.22, Expiry Date 12 April 2025	3,025,000	-	-	(950,000)	2,075,000
Exercise Price AUD\$0.15, Expiry Date 15 Nov 2025	1,375,000	-	-	(79,167)	1,295,833
Exercise Price AUD\$0.15, Expiry Date 21 Nov 2026	1,625,000	-	-	(116,667)	1,508,333
Exercise Price AUD\$0.22, Expiry Date 31 May 2021	650,000	-	-	(650,000)	-
Exercise Price AUD\$0.12, Expiry Date 21 Nov 2028	-	2,875,000	-	-	2,875,000

Notes to the consolidated interim financial report

	Options Expiring 12 April 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	1,225,000	1,700,000
Exercise Price (AUD)	\$0.22	\$0.15	\$0.15	\$0.22
Grant Date	12 April 2018	15 May 2019	21 Nov 2019	21 Nov 2019
Expiry Date	12 April 2025	15 Nov 2025	21 Nov 2026	21 Nov 2026
Risk Free Rate	1.95%	1.55%	0.77%	0.77%
Volatility	100%	100%	100%	100%
Total Value of Options (AUD)	\$995,775	\$542,202	\$125,490	\$111,849
Total Value of Options (USD)	\$736,276	375,041\$	87,981\$	\$78,417

	Options Expiring 31 May 2021	Options Expiring 10 Sept 2027	Options Expiring 2 Feb 2028
Number of Options	650,000	700,000	2,875,000
Exercise Price (AUD)	\$0.22	\$0.15	\$0.12
Grant Date	10 Sept 2020	10 Sept 2020	2 Feb 2021
Expiry Date	31 May 2021	10 Sept 2027	2 Feb 2028
Risk Free Rate	0.28%	0.38%	0.71%
Volatility	100%	100%	100%
Total Value of Options (AUD)	\$47,640	\$51,305	\$441,615
Total Value of Options (USD)	\$34,665	\$37,332	\$337,126

During the period ended 30 June 2021 a total share-based payment expense of \$49,070 (30 June 2020: \$103,859) was recognised through profit and loss.

10. 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.

Notes to the consolidated interim financial report

11. 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 2020 Annual Report.

12. 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.

13. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 26 July 2021 the Company held an Extraordinary General Meeting at which shareholders approved the conversion of 80,769,232 convertible preference shares held by Eldridge DTS Funding, LLC into fully paid ordinary shares in Dragontail Systems Limited.

On 27 July 2021, the Company received conversion notices from Eldridge DTS Funding LLC and Alceon Liquid Strategies Pty Ltd as trustee for the Alceon High Conviction Absolute Return Fund to convert 80,769,232 and 30,769,232 convertible preference shares respectively into a total of 111,538,464 fully paid ordinary shares. On 4 August 2021 the conversion took place and the fully paid ordinary shares were issued.

On 23 August 2021, DTS ordinary shareholders approved the Scheme of Arrangement (Scheme) to effect the acquisition by Yum Connect Australia Pty Ltd.

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.

14. 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	Consolidated
	Half-Year ended 30 June 2021	Half-Year ended 30 June 2020
	USD	USD
Sale of software in development	1,248,817	549,692
Research and Development (R&D) tax incentive	327,558	474,450
Total for continuing operations	1,576,374	1,024,142
Research and Development expenses	(1,349,351)	(962,028)
Finance expenses (net of finance income)	(9,163,484)	(1,117,194)
Selling and marketing expenses	(196,010)	(106,498)
General and administrative expenses	(944,413)	(752,114)
Operating expenses	(1,245,247)	(831,515)
Share based payment expenses	(49,070)	(103,859)
Total revenue/(expenses) before tax (continuing operations)	11,371,199	2,849,065

Notes to the consolidated interim financial report

14. SEGMENT NOTE (CONTINUED)

	Consolidated 30 June 2021 USD	Consolidated 31 December 2020 USD
Segment Assets	5,804,980	2,594,092
Unallocated assets	-	-
Total assets	5,804,980	2,594,092

	Consolidated 30 June 2021 USD	Consolidated 31 December 2020 USD
Segment Liabilities	19,981,234	5,855,372
Unallocated liabilities	-	-
Total Liabilities	19,981,234	5,855,372

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 2021 USD	Consolidated 31 December 2020 USD
Israel	159,013	158,364
Australia	1,068,858	1,468,049
USA	133,071	112,610
Canada	215,432	312,352
Total revenues	1,576,374	2,051,375

Revenues from major customers for the period ended 30 June 2021 or 30 June 2020 for which each account for 10% or more of total revenues as reported in the financial statements in the respective financial periods

	Consolidated Half-Year ended 30 June 2021 USD	Consolidated Half-Year ended 30 June 2020 USD
Customer A	218,087	32,793
Customer B	205,439	11,429
Customer C	174,882	151,369
Customer D	51,768	29,751

Directors' declaration

The Directors of the Group declare that:

1. The financial statements and notes, as set out on pages 5 to 17:
 - (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 2021 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 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Dragontail Systems Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Dragontail Systems Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 significant 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 2021 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 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 Company's financial position as at 30 June 2021 and its 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



Ashleigh Woodley

Director

Perth, 31 August 2021