

ASX Company Announcement

ACTIVITY REPORT & APPENDIX 4C

31 July 2018

The Company continues its progress in generating revenue streams since listing on the Australian Securities Exchange (ASX) in June 2018. At this early stage, the Board does not expect revenue to be consistent from quarter to quarter, allowing for an adjustment period as the Company absorbs new people, adds new products and sales channels and adapts to its routine after an IPO but maintains its positive outlook for the upcoming quarters.

Operating expenses in Q2 were high due to once off costs associated with the Company's IPO and an increase in R & D expenditure to escalate the products to market. There is a forecasted increase in expenditure for product manufacturing and associated operating costs in Q3. This increase is associated with the build-up in inventories of the new products in excess of what was anticipated at the time of the IPO.

The company's future growth directions are based on:

- The number of sales channels that are in the process of discussing agreements with the Company;
- Sales orders and the continuous development of new products;
- Investment in partnerships to enhance the Company's offering; and
- Regulation activities to promote safe drone operations.

ParaZero continues to develop relationships with distributors and retailers in the United States and Australia under which the Company provides drone safety systems for commercial users using popular drone models for sale by those distributors and retailers. During the quarter ParaZero has established new partnerships with DJI official resellers. The Company will be aggressively expanding its sales footprint across these markets by continuing to identify further distributors and retailers to sell its products. There is on-going growth of parties looking to stock the Company products for sale to drone operators and enthusiasts.

ParaZero has received first orders from significant retailers and distributors in the United States and Australia for the SafeAir M200 drone safety system. DJI is the dominant global drone manufacturer of commercial drones and its Matrice 200 is one of the leading commercial models available today. ParaZero's SafeAir M200 drone safety system is an end-to-end solution that is designed specifically for DJI's Matrice 200 series.

In addition to ongoing engineering, new products are at the heart of R&D activities. Final product adaptations are on the way as the Company gets ready to launch sales of new products into the market. The Company is particularly excited about the impending launch of its professional consumer (prosumer) products that can open mass adoption of Parazero products and significantly strengthen our brand in this rapidly growing market.

In June 2018, ParaZero announced that Allianz Global Corporate & Specialty (AGCS), part of Allianz Group, is offering discounted insurance products to customers utilizing ParaZero drone safety systems. As part of the Company's strategy, ParaZero is seeking for more likewise partnerships that will enable growth. The Company is in negotiation with numerous potential partners to expand its offering.

As reported in June, ParaZero has been selected as UAS Safety Provider for Multiple UASIPP Teams. In the upcoming quarter, the company is moving forward with the teams working together to execute the initial phases of safe integration of UAS in the NAS.

ParaZero is an active member of the ASTM standard. In the last ASTM meeting that took place in June, significant progress was made in pushing forward the ASTM standard.

ParaZero would also like to note that the Company's drone safety system recently saved hundreds of thousands of dollars' worth of payload mounted on a commercial drone that had a serious malfunction. The mission happened towards the end of the quarter and was executed by a commercial drone operator in the homeland security domain. ParaZero's drone safety system identified a critical failure in the flight and autonomously deployed a ballistic parachute during the customers' operations, bringing the drone and the payload back to the ground, safely.

-ENDS-

ABOUT PARAZERO

ParaZero (www.parazero.com) was founded in 2014 to accomplish a vision to enable the drone industry to realize its greatest potential. ParaZero offers a smart and intuitive solution to enable drone industry growth by designing, developing and providing best-in-class autonomous safety systems for commercial drones.

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

ParaZero Limited

ABN

17 618 678 701

Quarter ended ("current quarter")

30 June 2018

Consolidated statement of cash flows	Current quarter	Year to date*
	\$US'000	(6 months)
		\$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	288	288
1.2 Payments for		
(a) research and development	(753)	(753)
(b) product manufacturing and operating costs	(99)	(99)
(c) advertising and marketing	(193)	(193)
(d) leased assets	-	-
(e) staff costs	(175)	(175)
(f) administration and corporate costs	(707)	(707)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(81)	(81)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	101	101
1.8 Other – transaction costs	(93)	(93)
1.9 Net cash from / (used in) operating activities	(1,712)	(1,712)

* This Appendix 4C is the first one lodged by ParaZero Limited (PRZ) following completion of the acquisition of Parazero Ltd (Israel) on 13 June 2018 and ASX listing on 14 June 2018.

In accordance with Accounting Standards, the acquisition of Parazero Ltd (Israel) has been accounted for as a reverse acquisition. As a result, the consolidated statement of cash flows comprises the cash transactions of Parazero Ltd (Israel) for the period 1 January 2018 – 30 June 2018 and the cash transactions of PRZ for the period 13 June 2018 – 30 June 2018.

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(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	396	396
2.4	Dividends received (see note 3)	-	-
2.5	Other – cash on reverse acquisition	(15)	(15)
2.6	Net cash from / (used in) investing activities	381	381

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	3,701	3,701
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(145)	(145)
3.5	Proceeds from borrowings	180	180
3.6	Repayment of borrowings	(37)	(37)
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	3,699	3,699

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	54	54
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,712)	(1,712)

4.3	Net cash from / (used in) investing activities (item 2.6 above)	381	381
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,699	3,699
4.5	Effect of movement in exchange rates on cash held	(112)	(112)
4.6	Cash and cash equivalents at end of quarter	2,310	2,310

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	2,310	54
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)	2,310	54

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$US'000
40
-

Item 1.2 includes payments to the Chief Executive Officer of US\$40,288.

7. Payments to related entities of the entity and their associates

- 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
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$US'000
-
-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'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.		

Loan facility 1 – secured long term bank loan of US\$128,000 bearing interest rate of 3.25%.

Loan facility 2 – secured long term bank loan of US\$39,000 bearing interest rate 4.1%.

Loan facility 3 – secured long term bank loan of US\$39,000 bearing interest rate 4.1%.

9. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	378
9.2 Product manufacturing and operating costs	453
9.3 Advertising and marketing	202
9.4 Leased assets	-
9.5 Staff costs	403
9.6 Administration and corporate costs	160
9.7 Other (provide details if material)	108
9.8 Total estimated cash outflows	1,704

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Parazero Ltd	-
10.2 Place of incorporation or registration	Israel	-
10.3 Consideration for acquisition or disposal	Refer to note (a) below	-
10.4 Total net assets	Refer to note (b) below	-
10.5 Nature of business	Technology development	-

(a) The acquisition of Parazero Ltd (Israel) was treated as a reverse takeover transaction. Vendor consideration was 51,580,391 ordinary shares. Full terms and conditions of the acquisition can be found in the Replacement Prospectus dated 30 April 2018.

(b) The net assets of Parazero Ltd (Israel) prior to the reverse takeover transaction are based on the audited accounts as at 31 December 2017 and as disclosed in the Investigating Accountant's Report included in the Replacement Prospectus dated 30 April 2018.

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: 31 July 2018
Company Secretary

Print name: Stephen Buckley

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.