
ASX Announcement**31 October 2018**

SEPTEMBER QUARTERLY REPORT

- Revenue totalled USD145K for the quarter – attributable to custom project and service fees.
- USD330K sales agreement signed with leading Japanese drone manufacturer (Autonomous Control System Laboratory, a.k.a ACSL) post the quarter, with USD165K to land in the December quarter.
- First ever waiver secured in North Dakota approved drone flight over people using ParaZero's technology, further validating the demand and need for ParaZero's safety solutions in civilian safety.
- New sales and distribution partnerships secured with drone integrator and top DJI enterprise vendor, DSLRPros in the United States, and opened a new market for selling safety systems in Scandinavia.
- Following the first orders received for SafeAir M-200 for use with DJI's Matrice 200, the demand for the product has continued to build.

Drone safety systems company, **ParaZero Limited (ASX: PRZ) (ParaZero or Company)**, has today released its Appendix 4C Report for the three-month period to 30 September 2018 and is pleased to provide an update on operational progress during the period.

FINANCIAL OVERVIEW

This quarter, investment in the manufacturing of the new prosumer drone safety system was increased, with a higher investment required to obtain a lower manufacturing cost per unit in order to produce a high margin product.

Revenue during the quarter was driven predominantly by service and custom project fees, which is expected to shift more towards product sales revenue once sales of the prosumer SafeAir product begin to build. During the quarter, the Company recognised USD145K in revenue, and cash receipts totalled USD141K.

As sales and distribution channels continue to be expanded the revenue profile is expected to become more consistent.

Post the quarter end, ParaZero signed an agreement with Rakuten subsidiary, Autonomous Control Systems Laboratory Ltd. a.k.a ACSL, a high-end drone manufacturer based in Japan to sell its SafeAir systems for incorporation into their high-end drones. The agreement is worth USD165k up front and a further USD165K is expected to be received over the next six months. The initial USD165k will land in the December quarter, significantly bolstering revenue for the period.

Total net operating outflows during the quarter totalled USD1.67m. As mentioned above, product manufacturing costs were higher due to upfront investment in the inventory of the SafeAir product. Cash at the end of the quarter totalled \$1.53m. Cash outflows in the coming December quarter are expected to be in line with the September quarter as the manufacturing of the SafeAir product continues to build up the inventory. The Cash Flow forecast does not include the expected revenues.

OPERATIONAL OVERVIEW

Strong Regulatory Drivers

During the quarter, the publication of a new international standard for small Unmanned Aerial Systems (sUAS) parachute recovery systems was published by the American Society for Testing and Materials (ASTM). The new ASTM standard defines the requirements for the design, manufacturing and testing of sUAS parachute recovery systems. To meet the standard, parachute systems will need to pass a series of aerial deployments through which they need to prove the effectiveness of the system in the sUAS's full flight and in various failure scenarios. ParaZero was a member of the standard development working group along with the Federal Aviation Authority (FAA), Amazon, DJI and other prominent industry players consulted. The publication of the ASTM Standard will pave the path for safe and legal flight over people, and ParaZero's systems are making this possible.

The first FAA waiver for flight over people with a parachute safety system was granted to a UAS operator using the ParaZero SafeAir system. The waiver was granted to North Dakota operator, Botlink, using ParaZero's SafeAir system on a DJI Phantom 4. The drone was used to perform missions for local law enforcement over the tailgating event prior to the North Dakota State University vs South Dakota State football game at the FargoDome in North Dakota. The drone performed multiple flights over the crowds and provided important, real-time footage for local law enforcement and media companies.

The FAA's rule for commercial UAS, also known as Part 107, restricts the flight of UASs over unprotected people. This limitation has inhibited the growth of the industry as it prevents most UAS operations in urban environments. ParaZero's system is making flight over people possible and its safety solution was a major acceptance point of the waiver.

Distribution and Sales

The Company expanded its distribution channels via a Distributor Agreement with drone integrator and top DJI enterprise vendor, DSLRPros in the United States. ParaZero's safety systems are being sold as part of their drone package sold to enterprise users. DSLRPros has vast experience in the enterprise domain and the agreement extends ParaZero's market penetration further into the enterprise sector.

ParaZero expanded its market reach in Europe by opening a new market in Scandinavia. First orders for safety systems have been received from Scandinavian Drone, an online drone and accessories distributor for both the hobbyist and commercial markets.

Parazero began delivery of its first orders of its SafeAir M200 for use with SZ DJI Technology Co. Ltd's (DJI) drone, the Matrice 200 that came from retailers and distributors in the United States and Australia. The Company considers the early sales to be highly encouraging and illustrative of the Company's ability to create successful products. Since the initial orders, the demand for the product has continued to build, supported by growing sales of the DJI drone.

CORPORATE OVERVIEW

Mr. Stephen Gorenstein was appointed as a Non- Executive Director, replacing Dr Anton Uvarov who has resigned from the board to concentrate on his other commitments. Stephen is a Director of corporate advisory firm, Jindalee Partners. Stephen graduated from Monash University with Bachelors and Honours in Science majoring in Geology and Geophysics as well as a Masters degree in Accounting & Finance. He has over 15 years' experience in the capital markets including equity analyst roles at both Goldman Sachs and Merrill Lynch and was formerly the Regional Head of Asia Pacific Metals and Mining at Bank of America Merrill Lynch.

-ENDS-

For more information, please contact:

Corporate Enquiries

Stephen Buckley
Company Secretary
+61 (0)8 6189 1155

About ParaZero

ParaZero (www.parazero.com) was founded in 2014 to accomplish a vision to enable the drone industry to realise 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 September 2018

Consolidated statement of cash flows	Current quarter	Year to date*
	\$US'000	(9 months)
		\$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	141	429
1.2 Payments for		
(a) research and development	(166)	(919)
(b) product manufacturing and operating costs	(641)	(740)
(c) advertising and marketing	(117)	(310)
(d) leased assets	-	-
(e) staff costs	(358)	(533)
(f) administration and corporate costs	(226)	(815)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(2)	(83)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	90	191
1.8 Other – transaction costs	(393)	(486)
1.9 Net cash from / (used in) operating activities	(1,672)	(3,266)

* On 13 June 2018, ParaZero Limited (PRZ) completion of the acquisition of 100% of the issued capital of Israeli company ParaZero Ltd (ParaZero Israel). In accordance with Accounting Standards, the acquisition of Parazero Israel has been accounted for as a capital reorganisation. As a result, the year to date consolidated statement of cash flows comprises the cash transactions of Parazero Israel for the period 1 January 2018 – 30 September 2018 and the cash transactions of PRZ for the period 13 June 2018 – 30 September 2018.

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(4)	(4)
	(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
2.4	Dividends received (see note 3)	-	-
2.5	Other – cash on reverse acquisition	-	15
2.6	Net cash from / (used in) investing activities	(4)	407

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	3,701
3.2	Proceeds from issue of convertible notes	-	1,036
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(145)
3.5	Proceeds from borrowings	-	180
3.6	Repayment of borrowings	(108)	(145)
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	(108)	4,627

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	3,484	54
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,672)	(3,266)

Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4)	407
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(108)	4,627
4.5	Effect of movement in exchange rates on cash held	(174)	(296)
4.6	Cash and cash equivalents at end of quarter	1,526	1,526

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	1,526	3,484
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)	1,526	3,484

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**

42

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Item 1.2 includes payment of US\$41,886 to the Chief Executive Officer.

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**

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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	73	73
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\$15k bearing interest rate of 5.7%.
 Loan facility 2 – secured long term bank loan of US\$15k bearing interest rate 5.7%.
 Loan facility 3 – secured long term bank loan of US\$24k bearing interest rate 3.25%.
 Loan facility 4 – secured long term bank loan of US\$19k bearing interest rate of 3.25%.

9. Estimated cash outflows for next quarter*	\$US'000
9.1 Research and development	104
9.2 Product manufacturing and operating costs	553
9.3 Advertising and marketing	144
9.4 Leased assets	-
9.5 Staff costs	388
9.6 Administration and corporate costs	151
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,340

* Outflows include production expenses of new products for inventory.

* The Forecast does not include revenues expected in Q4 of the calendar year.

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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 October 2018
Company Secretary

Print name: Mr 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.