

ASX Announcement**25 January 2019****DECEMBER 2018 QUARTERLY REPORT****HIGHLIGHTS**

- Cash receipts totalled US\$380K for the quarter, ParaZero's highest to date
- Signed sales agreement with leading drone manufacturer
- Secured two waivers for "flight over people" and "Beyond Visual Line of Sight" using ParaZero's drone safety systems
- Entered into a non-binding Framework Agreement with leading drone manufacturer Airobotics
- Initial manufacturing of new product SafeAir™ Phantom, targeting the mass consumer market
- Commenced non-renounceable entitlement offer to raise up to AU\$2.93 million partially underwritten by Baillieu Ltd to AU\$800K
- Appointed Dave Sharma and Michael Huerta to ParaZero's Advisory Board

Drone safety systems company **ParaZero Limited (ASX: PRZ)** is pleased to provide a business update for the quarter ending 31 December 2018 (Q4 2018).

Commenting on the Company's progress over Q4 2018, CEO Eden Attias said, "ParaZero continues to focus on our path to commercialisation, leveraging existing partnerships with retailers and distributors to expand our international footprint and entering new markets and segments."

"The consumer drone market offers significant opportunities for ParaZero. Affordability will drive mass adoption over coming years. By 2021 an expected 29 million consumer drones will be shipped worth US\$17 billion globally. Over the same period, the global commercial drone market will grow to US\$13 billion. Our broad product portfolio is compatible with almost every drone for all applications, enabling ParaZero to capitalise on this high growth market."

"ParaZero continues to actively work with industry to shape the future of drone safety. In addition to our involvement in the formation of drone regulation, ParaZero's safety solutions are proving successful in waiver applications. We are a benchmark for very low altitude deployments and, to date, the only company whose parachute systems have been used in several successful waiver applications for flight over unprotected people."

"We continue to develop commercial relationships with drone manufacturers, offering customised safety systems which can be seamlessly embedded. Future regulatory environments will further assist in integrating ParaZero's solutions into the manufacturing process."

FINANCIAL OVERVIEW

ParaZero recorded its highest ever quarterly cash receipts in Q4 2018, of US\$380K. Total cash receipts for the 2018 calendar year were US\$809K predominantly driven by service and custom project fees. The launch of ParaZero's new consumer product in early 2019 is expected to shift revenue towards product sales over the coming quarter and calendar year. ParaZero's December quarter net cash flow was a loss of US\$891K.

Total operating outflows during the quarter totalled US\$1.27 million, which was broadly in line with expectations. Cash at the end of the quarter was slightly higher than expected, at US\$585k.

Cash outflows in the coming March 2019 quarter are expected to be in line with December quarter, at US\$1.128 million. Expected net outflows including the additional secured capital raise of US\$543K will be at least US\$586K.

OPERATIONAL UPDATE

Generating sales and expanding into new markets

ParaZero expanded its international footprint during Q4 2018, entering Sweden and Norway with its SafeAir™ Systems. First orders for this safety system have already been received from Scandinavian Drone, an online drone and accessories distributor for both the recreational and commercial markets.

Regulation

During the quarter, the United States Federal Aviation Administration (FAA) granted two waivers for 'flight over people' and 'Beyond Visual Line of Sight' for regulated Unmanned Aerial Systems (UAS) using ParaZero's SafeAir systems. The first was awarded in early October to North Dakota drone operator Botlink for use by law enforcement and media during a large sporting event. The second FAA waiver was granted to ParaZero customer Airobotics in December, with the integration of ParaZero's parachute system a key factor in the approval. Airobotics also holds approval from the Civil Aviation Safety Authority (CASA) in Australia and the Civil Aviation Authority of Israel (CAAI) to fly autonomously and BVLOS that include ParaZero's SafeAir system.

ParaZero is at the global forefront of drone safety solutions and the only company whose parachute systems have been used in several successful waiver applications for flights over people. The US FAA restricts the flight of UAS over unprotected people as a safety precaution, which has curbed industry growth as it prevents most UAS operations in urban environments. Waivers provide a temporary regulatory solution for countries without established regulation. Integrated drone safety systems are an adequate risk mitigator for safe and legal flight over unprotected people.

Commercialisation and manufacturing

The integration of ParaZero's safety systems into drone manufacturing remains key to the Company's long-term commercialisation strategy.

During Q4 2018 ParaZero entered into a non-binding Framework Agreement with Airobotics Ltd, a manufacturer of autonomous industrial drones. The Framework Agreement sets out the parameters under which the two parties will enter into discussions to agree and execute a binding commercial agreement for SafeAir™ Systems to be integrated into Airobotics drones. Both parties continue to work towards terms for a formal, binding commercial agreement.

Ahead of a global launch in early 2019, ParaZero invested US\$940K in the December quarter to commence manufacturing its new consumer product. SafeAir™ Phantom has been designed for the most common drone in the market, Phantom 4, which is manufactured by the world's largest drone manufacturer (SZ DJI Technology Co). According to a 2018 Drone Market Sector Report by Skylogic Research, DJI has a 74 percent market share of drone sales, up from 72 percent in 2017. The Phantom 4 Series is by far DJI's most popular drone, accounting for a 29 percent share in volumes. ParaZero's new consumer product has been successfully tested and flown in urban environments and will be shipped to distributors early in 2019.

Drone pilot training

During the quarter, ParaZero partnered with leading online drone training provider Fresh Air Educators to offer an industry-leading training solution. The partnership cross-promotes online drone safety courses with ParaZero's SafeAir™ safety system to commercial and recreational drone operators.

Under the partnership agreement, online drone training courses are offered at a discount to customers that have purchased ParaZero's safety systems. Fresh Air recommends and promotes ParaZero's product as a best-in-class safety solution. The initial agreement expires in October 2019 and can be extended by mutual consent. Either party can terminate the agreement at any time for any reason.

Strengthening the Company's balance sheet to support growth

Towards the end of the quarter, ParaZero commenced a non-renounceable Entitlement Offer to raise up to AU\$2.93 million (before costs). The combination of applications received and the partial underwriting raised a total amount of AU\$846,240.90. Funds raised will boost working capital and product inventory, strengthening the Company's balance sheet.

CORPORATE OVERVIEW

Strengthening leadership and industry experience

ParaZero strengthened its leadership and industry experience during the quarter, appointing Dave Sharma and Michael Huerta to its Advisory Board.

A Former Australian Ambassador to Israel, Dave's appointment brings more than 20 years' leadership experience with a focus on technological innovation in Australia. Dave's extensive global network of contacts will further support the company's growth strategy as it looks to increase its international footprint.

Michael Huerta is a former United States Federal Aviation Administration (FAA) Administrator with more than 30 years' senior and executive management experience in the technology and aviation innovation industries. He is a renowned aviation expert with extensive drone safety knowledge, contacts and expertise. His appointment provides the Board with the leadership required to lead ParaZero as it nears full commercialisation.

The Board was also strengthened with the appointment of Stephen Gorenstein as a Non-Executive Director, replacing Dr Anton Uvarov. Stephen has more than 15 years' experience in the Australian capital markets at both Goldman Sachs and Merrill Lynch experience.

Subsequent to the reporting period ending, the Board was further strengthened with the appointment of Chris Singleton, bringing extensive corporate management and marketing experience in several sectors to the Company.

-ENDS-

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About ParaZero

ParaZero (www.parazero.com) was founded in 2014 with the vision to enable the global drone industry to realise its greatest potential. ParaZero offers smart and intuitive solutions for commercial and consumer drone markets to enable drone industry growth by designing, developing and providing best-in-class autonomous safety systems.