

PARAZERO 2018 PRELIMINARY FINANCIAL REPORT

Drone safety systems company ParaZero Limited (**ASX:PRZ**) is pleased to announce its Preliminary Final Results for the financial year ended 31 December 2018.

The Company reported a net loss after tax of \$4,708 for the period, compared to \$2,474 from the previous year, reflecting costs associated with the ASX listing in June 2018 and larger investments into the development of the Company's drone safety products.

ParaZero offers a smart and intuitive solution for Enterprise and professional consumer drone markets to enable industry growth by designing, developing and providing best-in-class autonomous safety systems. The Company produces drone safety systems which can be seamlessly embedded with the world's leading drone manufacturers.

Key highlights during the year:

- Listed on the Australian Securities Exchange ("ASX") after successfully raising A\$5,000,000
- Delivery of the first orders of the SafeAir M-200 for use with DJI Matrice 200 drone; demand for the product continues to build
- Investment and development into the manufacturing of a new professional consumer drone safety system, providing the ability to produce a high-quality, high-margin product
- Established several new sales and distribution channels to expand the revenue profile
 - Agreement signed with top DJI enterprise vendor, DSLRPros in the US
 - Opened a distribution channel in Scandinavia through an online drone and accessories distributor
- Received two waivers from the Federal Aviation Administration (FAA) allowing flight over people and beyond visual line of sight;
 - First ever FAA waiver for an Unmanned Aerial System (UAS), flying over people ahead of a football game in Fargo, North Dakota
 - Second waiver with Airobotics for flight over people and beyond visual line of site using a ParaZero drone safety solution
- Partnered with Allianz Global Corporate & Specialty in offering discounted insurance products to customers utilising ParaZero drone safety system
- Selected as an UAS Safety Provider for multiple UASIPP Teams
- Strengthened the Board of Directors and Advisory board team with the addition of highly experienced personnel

Highlights post year end

- Proposed FAA regulations which would for the first time allow routine flights over people and at night, with appropriate safety precautions. This is set to dramatically increase the commercial drone market
- Launch of the Professional consumer market safety system called SafeAir™ Phantom
- ParaZero is the first company to comply with Slovenia's UAS Parachute Regulation with the SafeAir system fitted to the DJI Phantom 4 drone; new distribution agreement and purchase order from OneDrone in Slovenia
- Expanded footprint the Europe with new Hungarian Distributor

- Capital Raising of A\$846k was completed in January to strengthen balance sheet, boosting working capital and product inventory with second stage of entitlement process ongoing to raise up to an additional A\$2 million.

Commenting on the financial results, ParaZero's CEO, Eden Attias, said "ParaZero is very well positioned to take advantage of a dynamic drone safety market that is set to grow strongly, leveraging our market leader position in a market that is estimated to be worth around US\$2.4 billion by 2023.

"We are pleased to have achieved our highest quarter of revenue in Q4 2018, reflecting the progress we are making and the highly competitive products we are delivering into a strongly growing market.

"With further regulations worldwide expected, in regards to safety requirements for Unmanned Aerial Systems, our market leading safety products are well placed to become an industry standard for the drone market, and ensure significant growth for ParaZero", said Mr Attias.

-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 enterprise and professional consumer drone markets to enable drone industry growth by designing, developing and providing best-in-class autonomous safety systems.

APPENDIX 4E

PRELIMINARY FINAL REPORT

1. DETAILS OF REPORTING PERIOD

Name of Entity	ParaZero Limited (“the Company”)
ABN	17 618 678 701
Reporting Period	31 December 2018
Previous Corresponding Period	31 December 2017 as ParaZero Ltd (Israel)

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	12 months ended 31 Dec 2018 US\$'000	12 months ended 31 Dec 2017 US\$'000	Increase/ (decrease) %	Amount change US\$'000
Revenues from ordinary activities	662	540	22.60%	122
Profit/(loss) from ordinary activities after tax attributable to members	(4,708)	(2,474)	90.30%	(2,234)
Net profit/(loss) for the year attributable to members	(4,708)	(2,474)	90.30%	(2,234)

Comparisons to the previous corresponding period are comparisons to historical financial information extracted from ParaZero Ltd (Israel) for the year ended 31 December 2017 (refer to Notes 1 and 2 of the attached Preliminary Final Report).

	Amount Per Security	Franked Amount Per Security
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil
Previous Corresponding Period	Nil	Nil
Record Date for Determining Entitlements	Not Applicable	

Commentary on results:

Refer to section 14 below.

3. STATEMENT OF COMPREHENSIVE INCOME

Refer to attached financial statements.

4. STATEMENT OF FINANCIAL POSITION

Refer to attached financial statements.

5. STATEMENT OF CASH FLOWS

Refer to attached financial statements.

6. STATEMENT OF RETAINED EARNINGS/CHANGES IN EQUITY

Refer to attached financial statements.

7. DIVIDENDS/DISTRIBUTIONS

No dividends declared in current or prior year.

8. DETAILS OF DIVIDEND REINVESTMENT PLANS

Not Applicable

9. NET TANGIBLE ASSETS PER SHARE

	31 Dec 2018	31 Dec 2017
Net tangible asset backing per ordinary security	0.57 cents	(4.17) cents

10. DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

Control gained over entities

Name of entity (or group of entities)	ParaZero Ltd
Date control gained	13 June 2018
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)	N/A
Profit/(loss) of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	N/A

On 13 June 2018, ParaZero Limited completed the acquisition of 100% of the issued capital in ParaZero Ltd, an Israeli company which specialises in the development and manufacture of drone safety systems for commercial and prosumer drones. The acquisition of ParaZero Ltd has been accounted for as a capital re-organisation rather than a business combination under Australian Accounting Standards. As such, the historical financial information of the Company will be presented as a continuation of the pre-existing accounting values of the Israeli entity ParaZero Ltd. Refer to Notes 1(a), 1(b) and 2 of the attached Preliminary Final Report.

Loss of control over entities

Name of entity (or group of entities)	N/A
Date control lost	N/A
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)	N/A
Profit/(loss) of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	N/A

11. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Name of associate or joint venture entity	N/A	
Reporting entity's percentage holding in this entity	N/A	
Contribution to net profit/(loss) (where material)	Current Period	Previous Period
Aggregate share of profits/(losses) of the above entity (where material)	Current Period	Previous Period

12. ANY OTHER SIGNIFICANT INFORMATION NEEDED BY AN INVESTOR TO MAKE AN INFORMED ASSESSMENT OF THE COMPANY'S FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Refer to attached financial statements.

13. FOREIGN ENTITIES

Not Applicable

14. COMMENTARY ON RESULTS FOR PERIOD AND EXPLANATORY INFORMATION

Refer to commentary on pages 1 and 2 of the attached Preliminary Final Report.

15. AUDIT

This report is based on accounts which are in the process of being audited.



Eden Attias
Chief Executive Officer

28 February 2019



PARAZERO LIMITED

ABN 17 618 678 701

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31 DECEMBER 2018**

PARAZERO LIMITED
PRELIMINARY FINAL REPORT 31 DECEMBER 2018

Review of operations

Unless otherwise stated all figures in this report are in the Company's presentation currency US\$.

ParaZero Limited had a loss for the year ending 31 December 2018 of \$4,708,064 (2017: \$2,474,233). The 2018 loss included non-cash share-based payments of \$1,537,058.

The net assets of the Group have increased by \$4,164,391 from net liabilities of \$3,666,002 at 31 December 2017 to net assets of \$498,389 at 31 December 2018.

As at 31 December 2018, the Group's cash and cash equivalents increased from a balance of \$53,983 at 31 December 2017 to a balance of \$584,782.

Significant changes in the state of affairs

Acquisition of ParaZero Ltd ("ParaZero Israel") and ASX Listing of ParaZero Limited.

ParaZero Limited was incorporated in Australia on 21 April 2017 primarily for the purpose of investigating opportunities to invest in technology companies and to acquire ParaZero Israel.

On 13 June 2018, ParaZero Limited completed the acquisition of 100% of the issued capital of ParaZero Ltd ("ParaZero Israel"), an Israeli company which specialises in the development and manufacturing of drone safety systems for commercial and prosumer drones. The transaction between the Company and ParaZero Israel has been accounted for as a capital re-organisation rather than a business combination under the Australian Accounting Standards. As such, the historical financial information of the Company will be presented as a continuation of the pre-existing accounting values of Israeli entity ParaZero Ltd.

The terms of the transaction were as follows:

- The issue of 25,000,000 ordinary shares at A\$0.20 to raise A\$5,000,000 before costs;
- The issue of 31,907,600 ordinary shares to the vendors of ParaZero Israel;
- The issue of 8,750,000 ordinary shares upon conversion of the outstanding convertible loans of A\$1,400,000 in the Company;
- The issue of 19,672,791 ordinary shares in conversion of convertible loan notes outstanding in ParaZero Israel;
- The issue of 4,000,000 options exercisable at \$A.030 on or before 13 June 2021 to the lead manager and seed investors ("Broker Options");
- The issue of 55,000,000 Performance Options exercisable at \$0.20 on or before 13 June 2023 to Mr Eden Attias and other management personnel (Performance Options). These Performance Options vest and become exercisable in three (3) tranches, subject to satisfaction of the following performance conditions:
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of US\$1,500,000 from total sales of products based on the Technology in a Year (**Class A Performance Options**);
 - one third of the Performance Options will vest and become exercisable upon satisfaction of either one of the two sub-conditions (**Class B Performance Options**):
 - the Group achieving aggregate revenue of US\$4,000,000 from total sales of products based on the Technology in a Year; or
 - the 14-day trading volume weighted average price of the Company shares has increased in value by more than 300% from the IPO price.
 - one third of the Performance Options will vest and become exercisable upon satisfaction of either one of the two sub-conditions (**Class C Performance Options**):
 - the Group achieving aggregate revenue of US\$8,000,000 from total sales of products based on the Technology in a Year; or
 - the 14-trading day volume weighted average price of the Company shares has increased in value by more than 500% from the IPO price.

The term "Year" shall mean one of: (a) the time period commencing 1 July 2018 and ending on the 12 months anniversary of the completion of the listing or completion of the relisting or IPO; (b) the 12-month period immediately after the end of the first Year; and (c) the 12-month period immediately after the end of the second Year.

Further information on the capital reorganisation is detailed in Notes 1 and 2 of the financial statements.

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ParaZero Limited was admitted to the Official List on the ASX on 14 June 2018 with Official Quotation of its securities commencing on 22 June 2018.

Highlights during the year

During the year ended 31 December 2018, the Company had the following highlights.

ASX Listing

ParaZero Limited was admitted to the Official List of ASX Limited and securities commenced on 22 June 2018.

Since its listing and up until 31 December 2018, the Company has made the following material announcements:

- 3 July 2018 – First Orders Delivered – Safety Products for DJI Matrice 200.
- 17 August 2018 – ParaZero participates in Successful USA Drone Safety Test.
- 4 September 2018 – ParaZero Partners with DSLRPros.
- 1 October 2018 – First FAA Waiver for Drone Flight over People with Parachute.
- 4 October 2018 – ParaZero Received First Orders from Scandinavian Distributor.
- 19 October 2018 – Online Pilot Training Partnership with Fresh Air Educators.
- 25 October 2018 – ParaZero signs Sales Agreement with Japanese drone manufacturer, ACSL
- 12 November 2018 – ParaZero signs Framework Agreement with Airobotics Ltd
- 20 December 2018 – Second Waiver Secured for Flight Over People and BVLOS
- 24 December 2018 – ParaZero Launches Non-Renounceable Entitlement Offer

Significant events after the reporting period

Since the reporting date the following significant events have occurred:

- 10 January 2019 – ParaZero Launches Drone Safety System for Consumer Market
- 24 January 2019 – Closure of Entitlement Offer
- 14 February 2019 – Footprint Expanded in Europe with New Hungarian Distributor
- 19 February 2019 – SafeAir Complies with Slovenia's UAS Parachute Regulation



Eden Attias
Chief Executive Officer

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 US\$	2017 US\$
Revenue		662,046	540,349
Cost of sales		(435,567)	(328,975)
Gross profit		226,479	211,374
Research and development expenses		(1,495,148)	(976,664)
General and administrative expenses		(1,113,907)	(792,238)
Selling and marketing expenses		(774,040)	(404,189)
Share-based payments	5	(1,537,058)	-
Loss before finance expenses		(4,693,674)	(1,961,717)
Finance expenses		(14,390)	(512,516)
Loss before income tax		(4,708,064)	(2,474,233)
Income tax expense		-	-
Loss for the year		(4,708,064)	(2,474,233)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences		(152,538)	-
Total comprehensive income/(loss) for the year attributable to owners of the Company		(4,860,602)	(2,474,233)
Earnings/(loss) per share attributable to owners of the Company			
Basic/Diluted earnings/(loss) per share (cents per share)	3	(0.054)	(2.08)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 US\$	2017 US\$
CURRENT ASSETS			
Cash and cash equivalents		584,782	53,983
Trade and other receivables		268,310	40,350
Inventory		857,631	-
Other current assets		-	81,529
TOTAL CURRENT ASSETS		1,710,723	175,862
NON-CURRENT ASSETS			
Plant and equipment		94,114	81,354
TOTAL NON-CURRENT ASSETS		94,114	81,354
TOTAL ASSETS		1,804,837	257,216
CURRENT LIABILITIES			
Trade and other payables		774,578	356,932
Credit and current maturities of long-term loans		55,738	158,635
Liability for Israel Innovation Authority grants		-	118,965
TOTAL CURRENT LIABILITIES		830,316	634,532
NON-CURRENT LIABILITIES			
Convertible loans		-	2,962,043
Long term loans from bank		-	59,122
Liability for Israel Innovation Authority grants		476,132	267,519
TOTAL NON-CURRENT LIABILITIES		476,132	3,288,685
TOTAL LIABILITIES		1,306,448	3,923,217
NET ASSETS/(LIABILITIES)		498,389	(3,666,002)
SHAREHOLDERS' EQUITY/ (DEFICIT)			
Issued capital	4	8,627,926	1,196,187
Reserves		1,781,716	341,000
Accumulated losses		(9,911,253)	(5,203,189)
SHAREHOLDERS' EQUITY/ (DEFICIT)		498,389	(3,666,002)

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

	Issued capital	Share-based payment reserve	Predecessor Accounting reserve	Foreign exchange reserve	Accumulated losses	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2017	884,706	-	-	-	(2,728,956)	(1,844,250)
Loss for the year	-	-	-	-	(2,475,233)	(2,475,233)
Other comprehensive income/(loss)	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	-	-	-	-	(2,475,233)	(2,475,233)
Loan conversion	311,841	-	-	-	-	311,841
Share based compensation	-	341,000	-	-	-	341,000
Balance at 31 December 2017	1,196,187	341,000	-	-	(5,203,189)	(3,666,002)
Balance at 1 January 2018	1,196,187	341,000	-	-	(5,203,189)	(3,666,002)
Loss for the year	-	-	-	-	(4,708,064)	(4,708,064)
Other comprehensive income/(loss)	-	-	-	(152,538)	-	(126,544)
Total comprehensive income/(loss) for the year	-	-	-	(152,538)	(4,708,064)	(4,834,608)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares	8,118,965	-	-	-	-	8,118,965
Capital raising costs	(408,199)	-	-	-	-	(408,199)
Share based payments	(279,027)	1,781,944	-	-	-	1,502,917
Transactions under common control ⁽ⁱ⁾	-	-	(188,690)	-	-	(188,690)
Balance at 31 December 2018	8,627,926	2,122,944	(188,690)	(152,538)	(9,911,253)	498,389

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

(i) As a result of the common control transaction, an equity account called 'Predecessor Account Reserve' exists. This equity account represents the carrying value of the net liabilities acquired. See Note 2 for further details of the acquisition.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 US\$	2017 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		514,493	477,631
Payments to suppliers and employees		(4,346,952)	(2,485,835)
Interest received		1,122	-
Other income		101,189	198,733
Interest paid		(6,635)	(5,000)
Net cash (used in) operating activities		(3,736,783)	(1,814,471)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(27,534)	(42,335)
Cash held by the Company at acquisition date	2a	15,441	-
Net cash provided by/(used in) investing activities		(12,093)	(42,335)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from the issue of shares		3,391,193	-
Change in bank overdraft		(36,754)	92,492
Proceeds from convertible loans		1,263,830	1,380,000
Repayment of borrowings		(59,122)	(45,633)
Net cash provided by/(used in) financing activities		4,559,147	1,426,859
Net increase/(decrease) in cash and cash equivalents		810,271	(429,947)
Cash and cash equivalents at the beginning of the financial year		53,983	483,930
Impact of movement in foreign exchange rates		(279,472)	-
Cash and cash equivalents at the end of the financial year		584,782	53,983

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This preliminary report has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standard Board (AASB) and the Corporations Act 2001.

a) Basis of Measurement and Reporting Conventions Including Capital Re-organisation

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded off to the nearest dollar unless stated otherwise.

On 13 June 2018, ParaZero Limited ('PRZ') completed a transaction with the shareholders of ParaZero Ltd ('ParaZero Israel') to acquire 100% of the share capital of ParaZero Israel in exchange for 51,580,391 shares. In accordance with Australian Accounting Standards, the acquisition does not meet the definition of a business combination as PRZ was established for the sole purpose of facilitating the listing process and to acquire ParaZero Israel by way of an equity swap. The shareholders of ParaZero Israel received the same proportion of equity instruments in PRZ.

Consequently, this financial report presents:

- the results of ParaZero Israel for the period from 1 January 2018 to 13 June 2018
- the results of the consolidated Group for the period from 13 June 2018 to 31 December 2018; and
- the consolidated Group's financial position as at 31 December 2018.

The comparative financial information included in the Company's financial statements is that of ParaZero Israel, not the Company. However, the capital structure of the legal acquirer, the Company is adopted in the financial report.

The accounting policies adopted are consistent with the accounting policies adopted in ParaZero Israel's last annual financial statements for the year ended 31 December 2017. Comparative figures have been adjusted to conform to changes in presentation for the current financial year.

b) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates and judgements

Capital Reorganisation

The acquisition of 100% of the issued capital of ParaZero Israel by the Company, by way of issuing the shareholders of ParaZero Israel Ltd fully paid shares in the Company, has been determined by management to be a capital reorganisation as the transaction does not meet the definition of a business. Capital reorganisation transactions are a complex accounting area because there are no specific applicable accounting standards to these types of transactions. In the absence of specific guidance, management has used the guidance in AASB 108 'Accounting Policies, Change in Accounting Estimates and Errors (para 10) whereby management have used its judgment in developing and applying a relevant and reliable accounting policy using pre-combination book values to account for this transaction as no substantive economic change has occurred. Refer to Note 2 for additional information.

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Share based payments

The Group initially measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them, as well as an assessment of the probability of achieving non-market based vesting conditions.

The probability of achieving non-market based vesting conditions of performance options is assessed at each reporting period.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 5.

NOTE 2: COMMON CONTROL ENTITY

Summary of Acquisition

On 21 April 2017, ParaZero Limited (the acquirer) was incorporated in Australia primarily for the purpose of investigating opportunities to invest in technology companies and being listed on the Australian Securities Exchange (ASX).

On 13 June 2018, the Company completed a transaction with the shareholders of ParaZero Ltd (Israel) under common control to acquire 100% of the share capital in ParaZero Ltd in exchange for 51,580,391 ordinary shares in the Company.

Refer to Notes 1(a) Basis of measurement and reporting conventions, including capital reorganisation and 1(b) Critical accounting judgments and estimates for further information.

As at the date of acquisition, the assets and liabilities of the Company were as follows:

	US\$
a) Assets and Liabilities at Acquisition Date	
Cash and cash equivalents	15,441
Other current assets	16,995
Intercompany loan receivable	938,450
Trade and other payables	(95,746)
Convertible notes	(1,063,830)
Net liabilities of ParaZero Limited at acquisition date	(188,690)
 b) Predecessor Accounting Reserve	
Net liabilities of ParaZero Limited at acquisition date	(188,690)
Predecessor Accounting Reserve	(188,690)

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3: EARNINGS/(LOSS) PER SHARE

	2018	2017
	US\$	US\$

Earnings/ (loss) per share (EPS)

a) Profit/(loss) used in calculation of basic EPS and diluted EPS	(4,708,064)	(2,474,233)
b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted earnings/ (loss) per share	87,830,391	87,830,391

The weighted average number of ordinary shares outstanding (the denominator of the EPS calculation) for the years ended 31 December 2018 and 31 December 2017 has been adjusted to reflect the capital reorganisation. The weighted average number of shares outstanding for the year ended 31 December 2017 is based on the weighted average number of shares of ParaZero Limited outstanding in the period following the acquisition.

NOTE 4: ISSUED CAPITAL

	2018	2017
	US\$	US\$

(a) Share Capital

87,830,391 (31 December 2017: 102,736) fully paid ordinary shares	8,627,926	1,196,187
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(b) Movement in Ordinary Capital

	Date	No.	Unit Price ¹ US\$	Total ² US\$
Opening balance at 1 January 2017	-	102,736	-	1,196,187
Movement during the year	-	-	-	-
Closing balance at 31 December 2017	-	102,736	-	1,196,187
Less: adjustment for predecessor accounting ³	13 Jun 18	(102,736)	-	-
Existing shares of ParaZero Limited	13 Jun 18	2,500,000	-	-
Issue of shares to ParaZero Ltd shareholders ⁴	13 Jun 18	31,907,600	-	-
Issue of shares to ParaZero Ltd convertible note holders ⁵	13 Jun 18	19,672,791	0.152	2,989,786
Capital raising under the initial public offer	13 Jun 18	25,000,000	0.152	3,799,392
Issue of shares upon conversion of Company convertible loans ⁶	13 Jun 18	8,750,000	0.152	1,329,787
Costs of capital raising	-	-	-	(408,199)
Issue of 4,000,000 options to lead manager	-	-	-	(279,027)
Closing balance at 31 December 2018		87,830,391	-	8,627,926

¹ The unit price of US\$0.152 has been obtained by converting the issue price A\$0.20 at a rate of 1.316.

² Due to rounding, the figures may not precisely reflect the absolute figures obtained on multiplying the number of shares by the unit price.

³ The application of predecessor accounting for the acquisition and consolidation of the common controlled entity ParaZero Ltd (Israel) required the value of ParaZero Ltd (Israel) shares on issue as at 31 December 2016 as a comparative.

⁴ The Company issued 31,907,600 fully paid ordinary shares to ParaZero Ltd shareholders, refer to Note 2 for further information.

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

⁵At acquisition date (13 June 2018), ParaZero Ltd (Israel) had convertible loan notes outstanding, which were fully converted into 19,672,791 ordinary shares of the Company. The shares issued have been valued at the offer issue price of A\$0.20 and the difference between the carrying amount of the outstanding liabilities and the fair value of the shares granted has been recognised as a finance expense/(credit).

⁶At acquisition date (13 June 2018), the Company had A\$1,400,000 worth of convertible notes on issue. Upon completion of the Company's initial public offering and admission to the ASX Official List, the convertible notes automatically converted to 8,750,000 shares, each at price of A\$0.16 per share (a 20% discount to the offer issue price). The shares have been valued at the offer issue price of A\$0.20 and the difference between the carrying amount of the outstanding liabilities and the fair value of the shares granted, has been recognised as a finance expense/(credit).

(c) Capital Management

Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet research and development programs and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

NOTE 5: SHARE BASED PAYMENTS

During the year ended 31 December 2018, the Company recorded the following share-based payments:

- The issue of 4,000,000 options, vesting on issue, exercisable at \$A.30 on or before 13 June 2021 to the lead manager and seed investors, escrowed for 24 months ("**Broker Options**").
- The issue of 55,000,000 performance options exercisable at \$0.20 on or before 13 June 2023 to Mr Eden Attias and other management personnel, also escrowed for 24 months ("**Performance Options**"). These Performance Options vest and become exercisable in three (3) tranches, subject to the following performance conditions:
 - **Class A** - one third of the Performance Options will vest and become exercisable upon the Group achieving aggregate revenue of US\$1,500,000 from total sales of products based on the Technology in a Year;
 - **Class B** - one third of the Performance Options will vest and become exercisable upon satisfaction of either one of the two sub-conditions:
 - the Group achieving aggregate revenue of US\$4,000,000 from total sales of products based on the Technology in a Year; or
 - the 14-trading day volume weighted average price of the Company shares has increased in value by more than 300% from the IPO price.
 - **Class C** - one third of the Performance Options will vest and become exercisable upon satisfaction of either one of the two -sub conditions:
 - the Group achieving aggregate revenue of US\$8,000,000 from total sales of products based on the Technology in a Year; or
 - the 14-trading day volume weighted average price of the Company shares has increased in value by more than 500% from the IPO price.

The term "Year" shall mean one of: (a) the time period commencing 1 July 2018 and ending on the 12-month anniversary of the completion of the IPO; (b) the 12-month period immediately after the end of the first Year; and (c) the 12-month period immediately after the end of the second Year.

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Fair Value

The Broker Options and the Class A Performance Options were valued using a Black-Scholes model, whereas the Class B and Class C Performance Options were valued using an “Up & In” Binomial Barrier model. The following inputs were used:

Type of Option	Broker	Class A Performance	Class B Performance	Class C Performance
Valuation basis	Black-Scholes		“Up & In” Binomial Barrier	
Exercise price	A\$0.30	A\$0.20	A\$0.20	A\$0.20
Barrier price	n/a	n/a	A\$0.80	A\$1.20
Expected volatility	85%	85%	60%	60%
Implied option life	3 years	3 years	5 years	5 years
Risk-free interest rate	2.13%	2.18%	2.42%	2.42%
Dividend yield	n/a	n/a	n/a	n/a
Exchange rate (AU\$:US\$)	1.316	1.316	1.316	1.316
Value per option	US\$0.0698	US\$0.0824	US\$0.0653	US\$0.0527
No. of options	4,000,000	18,333,333	18,333,333	18,333,333
Total valuation	US\$279,027	US\$1,510,686	US\$1,197,661	US\$966,295
Expected vesting period	n/a	1 year	2 years	3 years

The Broker Options vest immediately, and thus the whole amount is recorded as a share-based payment. As the options were granted for services rendered in respect of the IPO, the amount is treated as a capital raising cost, and capitalised against the share capital raised. Due to the specialised nature of the services rendered, management do not consider it possible to determine their value, and thus the cost recorded is the fair value of the options granted.

The Class A performance options have a solely non-market performance condition, and therefore, the charge recognised reflects the management’s current expectation of the total vesting period. Management have assessed the likelihood of achieving the non-market performance milestone Class A as 80% at 31 December 2018. In the period to 31 December 2018, the charge recognised in respect of these options was US\$793,308.

The Class B and C performance options contain both a market and a non-market performance condition. Management have assessed the likelihood of achieving the non-market performance milestone Class B and C as 50% at 31 December 2018 with an estimated date of achievement of the vesting milestone on 13 June 2020 for Class B and 13 June 2021 for Class C. As a result, a charge is recognised over the vesting periods of each of Class B and Class C. This was equal to US\$483,607 in the period to 31 December 2018.

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Share Based Payments Expense

Share based payment expense at 31 December 2018 is comprised as follows:

	US\$	US\$
ESOP performance options	1,311,058	-
Share option plan	226,000	-
Total expense recognised in profit or loss	<u>1,537,058</u>	-
Issue of 7,000,000 options to lead manager and seed investor, deemed capital raising cost	279,027	-
Total expense recognised in equity	<u>279,027</u>	-
Total share-based payments expense	<u>1,816,085</u>	-