

31 MARCH 2020 QUARTERLY ACTIVITY REPORT**PARAZERO CONTINUES TO PURSUE DELTA DRONE MERGER****HIGHLIGHTS**

- Signing Letter of Intent for merger with South African drone company
- New projects valued at US\$1 65,000 coming into the pipeline
- Successfully raising more than AU\$345,000 through convertible notes
- Involvement in new national tender for drone logistics operations

Drone Safety Systems company **ParaZero Limited (ASX: PRZ) (ParaZero or the Company)** is pleased to advise that it is continuing to progress towards emerging from its trading suspension and pursuing a merger with drone innovator, Delta Drone South Africa (Delta), which has been leading the rollout of remote surveillance for the multi-billion dollar global mining industry.

The move signals ParaZero's desire to expand its international presence after a busy quarter in which the Company successfully raised more capital, won new contracts and became involved in a new tender process, before suspending trade to line up its merger with Delta.

ParaZero is seeking to build a globally oriented drone data services business, based in Australia, with operations in South Africa. The company's initial focus will be in mining and agriculture, before expanding into other industry segments and other countries.

The Company is pleased to provide the following report and attached Appendix 4C to its shareholders for the quarter ending 31 March 2020.

Merger update

Following the course set by its strategic review, ParaZero executed a Letter of Intent to acquire Delta, which is incorporated in South Africa.

A leader in supply drone solutions to the mining industry through its Rocketmine brand, Delta Drone South Africa generated revenues of circa US\$2.5 million in 2019.

Delta itself is a wholly owned subsidiary of France-listed Delta Drone Group, a leading international player in civilian drones for professional use.

ParaZero believes a successful merger with Delta would bolster its bottom line and underpin R&D activities. It will also support the Company's desire to push further into

For personal use only

the global drone survey market through links with Delta Group. The sector is predicted to reach a value of US\$63 billion in the next five years.¹

- Rocketmine's clients include major global mining companies such as South 32, Newmont Mining and Assmang.
- Rocketmine offers services including aerial surveying and mapping, security and surveillance, and blast monitoring and fragmentation analysis.
- Rocketmine provides a cost-effective, scalable solution for drone services in the mining and agricultural sectors.
- ParaZero and Delta together will create a drone survey provider that can operate in almost any environment.
- Delta Drone Group, which will remain a major shareholder in the merged ParaZero and Delta Drone group, can support technology and market growth through its network and global operational footprint across Europe, the United States, Africa and Australia.

The Company has continued to advance its discussions with Delta and is working towards executing a binding agreement.

We remind shareholders that there is no guarantee that a binding transaction will be agreed and executed. ParaZero's securities will remain in suspension until at least the earlier of when it either executes a binding agreement with Delta for the transactions contemplated by the LOI and provides all the requisite information to ASX, or until it advises that the LOI has been terminated and continues to operate its existing business.

We also remind shareholders that any transaction will be subject to ASX and shareholder approval and the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules.

New projects coming on stream

Throughout the quarter, ParaZero was active in pursuing new commercial contracts and opportunities for its drone technology.

In recent weeks the company has won several projects from existing and new customers valued at US\$165,000. More than half of this amount is expected to be received during the current quarter.

This includes work for the Israeli Police, a new OEM international customer and an ongoing order from an existing customer.

¹ <https://markets.businessinsider.com/news/stocks/global-drone-service-market-report-2019-market-is-expected-to-grow-from-usd-4-4-billion-in-2018-to-usd-63-6-billion-by-2025-at-a-cagr-of-55-9-1028147695>

Summary of cash flows and related activity

As at 31 March 2020, ParaZero was operating under a bank overdraft facility compared with a cash and cash equivalents balance of US\$103,000 at 31 December 2019.

Net cash of US\$344,000 was used in operating activities compared with US\$301,000 for the quarter ending 31 December 2019, mainly due to a decline in receipts from customers from US\$481,000 for the December 2019 quarter to US\$207,000 in the March 2020 quarter.

The drop in receipts from customers was mainly due to the decreasing activity of the COVID-19. This is on top the seasonal (winter) expected lower activity.

In the post COVID-19 context, however, we expect that demand for drone services globally will experience rapid growth across a range of sectors including logistics, mining, oil & gas, agriculture, civil services and health.

During the last quarter, ParaZero raised US\$221,000 via Convertible Notes and has continued raising capital subsequent to the end of the quarter, issuing further Convertible Notes for approximately US\$99,000.

There were no other substantive business activities during the quarter.

Payments to related parties of the entity and their associates

In item 6 of the attached Appendix 4C cash flow report for the quarter, payments to related parties of US\$32,000 comprised of director fees paid to both executive and non-executive directors.

This report and the attached Appendix 4C have been authorised for release by the Board of ParaZero Limited.

-ENDS-

For more information, please contact:

Corporate and Business enquiries
Eden Attias
Chairman and Chief Executive Officer
P: +972 3688 5252

Investor enquiries
Stephen Buckley
Company Secretary
P: +61 (0)8 6189 1155

Media Contact:

Heidi Cuthbert
heidi@multiplier.com.au
+61 411 272 366

About ParaZero Limited

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 cash flow report for entities subject to Listing Rule 4.7B

Name of entity

PARAZERO LIMITED

ABN

17 618 678 701

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	207	207
1.2 Payments for		
(a) research and development	(28)	(28)
(b) product manufacturing and operating costs	(39)	(39)
(c) advertising and marketing	(8)	(8)
(d) leased assets	-	-
(e) staff costs	(255)	(255)
(f) administration and corporate costs	(222)	(222)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(6)	(6)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	7	7
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(344)	(344)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	221	221
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
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	221	221

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	103	103
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(344)	(344)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

For personal use only

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	221	221
4.5	Effect of movement in exchange rates on cash held	9	9
4.6	Cash and cash equivalents at end of period	(11)	(11)

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	-	103
5.2	Call deposits	-	-
5.3	Bank overdrafts	(11)	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	(11)	103

**6. Payments to related parties of the entity and their
associates**

- 6.1 Aggregate amount of payments to related parties and their
associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their
associates included in item 2

**Current quarter
\$US'000**

32

-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	98	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	98	-

7.5 **Unused financing facilities available at quarter end** 98

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Unsecured credit Facility from Israeli bank Discount bearing interest rate of 7.6%.

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(344)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	(11)
8.3	Unused finance facilities available at quarter end (Item 7.5)	98
8.4	Total available funding (Item 8.2 + Item 8.3)	87
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.25

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: The net operating cash flows are expected to be significantly lower due to steps taken by the Company to reduce expenses during the COVID-19 pandemic. Given the uncertain nature of the pandemic and its economic consequences, at this time we are unable to accurately predict the extent to which our net operating cash flows will be impacted.

- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The Company has raised an additional AU\$144,500 via convertible notes subsequent to the March 2020 quarter and is expected to raise additional AU\$154,500 which are already secured and will be received in May 2020. In addition, as announced to market on 12 March 2020, the Company has signed a letter of intent and is proposing to acquire the business of Delta Drone South Africa. Subject to successful completion of that transaction and any associated capital raising, it will improve the Company's overall financial position.

For personal use only

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: The ability of the Company to continue its operations and meet its business objectives is dependent on securing additional funds through equity or debt or a combination of both and receipts through the sale products and services. The Company currently expects to return to normal and consistent operations by Q3 2020, but this will be dependent on the COVID-19 pandemic and the extent of any economic consequences that flow, particularly in the regions in which the Company's business operates.

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.

Date: 30 April 2020

Authorised by: By the board

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

For personal use only