

SEPTEMBER 2020 QUARTERLY REPORT

HIGHLIGHTS

- Executed an agreement to merge with Delta Drone South Africa to expand into new geographic markets and industries with a drones-as-a-service business model
- Generated revenues of US\$297K for the quarter, despite ongoing impact of COVID-19 on operations
- Achieved significant milestone of 100 US FAA waivers for flight over people and Beyond Visual Line of Sight using ParaZero's SafeAir drone parachute safety system
- Launched new SafeAir Pro product line designed for several weight category-drones for the mining, surveillance, public safety and construction industries as well as heavy-lift applications for the logistics sector
- Transport Canada approved multiple variations of DJI commercial drones equipped with PRZ systems for complex operations

30 October 2020 - Drone safety systems company **Parazero Limited (ASX: PRZ)** is pleased to provide a business update for the quarter ending 30 September 2020 (Q3 2020), along with its Appendix 4C quarterly cash flow report.

Commenting on the Company's progress over Q3 2020, CEO Eden Attias said, "ParaZero remains focused on our merger with Delta Drone South Africa ("DDSA"), which will naturally align with our drone safety technology and significantly expand our operations and revenue into new geographic markets, industries and product segments.

"DDSA's complementary drone services business and strong 40 per cent year-on-year growth will enable us to aggressively expand into the Australian market, initially targeting the mining and agriculture industries. We will now be able to manage all drone operations including aerial surveying and mapping, security and surveillance, blast monitoring and fragment analysis, data management, as well as ensuring compliance with all regulatory, insurance and maintenance requirements. We will take care of everything in the air, so that engineers at our enterprise customers can focus on what's on the ground.

"The global commercial drone market, which is estimated to hit US\$13 billion by next year, offers significant opportunities for our drone parachute safety technology, and we have recently launched a new SafeAir product line specifically designed for heavy-lift commercial drones. As Delta Drone International, we will be able to leverage this product line in the provision of drone services to these industries.

"We continue to be actively involved with industry on the development of drone safety regulation and our safety solutions have now been successful in more than 110 US FAA waiver applications to date. We are the benchmark for very low altitude deployments and, to date, the only company whose safety systems have been used in successful waiver applications for flight over unprotected people."

FINANCIAL OVERVIEW

COVID-19 continued to impact revenues in Q3 2020 with quarterly cash receipts of US\$297,000, up 95 per cent on the June quarter but down 28.3 percent on the same period last year. Total revenues of US\$656,000 for the 2020 calendar year are 32 per cent lower than 2019 year-to-date figures.

To minimise the ongoing impact, ParaZero has implemented a range of cost reduction measures since the start of the pandemic, including downsizing the workforce, placing staff on unpaid leave, and reducing operational expenses where possible. As a result, Q3 2020 staff costs of US\$268,000 are almost a third lower than the same period in 2019. Staff costs are expected to reduce even further over the coming quarter as the company finalises the merger with Delta Drone South Africa.

Total net operating outflows during the quarter totaled US\$513,000, which included significant expenses associated with the transaction to merge with DDSA. These expenses accounted for around 60 per cent of the US\$350,000 spent on administrative and corporate costs during the quarter. Cash at the end of the quarter was in line with expectations, at US\$197k.

Post reporting period, ParaZero announced that it will undertake a proposed capital raising to bolster its balance sheet and comply with ASX relisting requirements in conjunction with the merger. The capital raise of between A\$3.5 million to A\$5 million will be used to assist the Company's expansion into the Australian market, invest in infrastructure, technology and R&D as well as sales and marketing support. The company will issue up to 125 million shares at an issue price of A\$0.04 cents per share. Baker Young Limited is acting as the lead manager.

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\$38,000 comprised of director fees paid to both executive and non-executive directors.

OPERATIONAL UPDATE

Sixteen DJI variations certified with Transport Canada

During the period, Transport Canada approved multiple variations of DJI commercial drones equipped with PRZ systems for complex operations (controlled airspace, near people, over people). The expanded operational flight envelope these systems will offer are expected to increase sales among construction, mapping, and public safety segments throughout Canada.

100 waivers granted in North American drone market

In July, ParaZero achieved the commercially significant milestone of being granted 100 US Federal Aviation Administration (FAA) waivers for drone flights over people for companies using drones equipped with its SafeAir system.

These waivers enable drone flight operations in populated areas, facilitating the capture of better and more precise data, imaging and aerial intelligence.

ParaZero is the first company globally to receive 100 US FAA waivers, demonstrating its industry-leading drone safety solutions and ability to gain regulatory approvals for commercial drone operators. This is a significant competitive advantage within the highly competitive commercial drone sector.

SafeAir product launch

During the quarter, ParaZero expanded its product range to include a new line of SafeAir safety systems designed for heavy-lift drones. The SafeAir M200 Pro, SafeAir M300 Pro and the SafeAir M600 Pro feature enhanced capabilities, payloads and sensors and are ideal for the construction, mining, public safety and surveillance sectors. This heavy lift capability also allows the company to offer the product to the growing logistics sector. The new products are already generating global interest and will be invaluable to the newly merged company as we expand our presence within the mining and agricultural industries.

ParaZero systems on Brazil's first regulator-approved drone delivery operations

Latin American drone delivery company, Speedbird Aero, has received regulatory approval from Brazil's National Civil Aviation Agency to operate two drone delivery routes in Brazil. Speedbird Aero operates a proprietary delivery drone with an integrated ParaZero parachute recovery system and is now the first company in Latin America to win regulatory approval for a drone delivery operation.

Drones will pick up orders from the rooftop of a large shopping complex in São Paulo and transport them to nearby pickup hubs, where awaiting couriers will shuttle orders to their final destinations.

OUTLOOK

ParaZero aims to relist on the ASX under the name Delta Drone International and ticker 'DLT', subject to obtaining all the necessary regulatory and shareholder approvals.

The new entity will focus on building an Australian-based global 'drones-as-a-service' business. Delta Drone International is focused on entering the Australian market, initially within the mining and agriculture sectors where there is a high desire by companies to outsource these services. Funds raised will also be used to increase its presence within Southern Africa and expand into other commercial and industrial sectors.

This announcement has been authorised for release by the Board of ParaZero Limited.

-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.

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")

30 SEPTEMBER 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	297	656
1.2 Payments for		
(a) research and development	(30)	(61)
(b) product manufacturing and operating costs	(156)	(260)
(c) advertising and marketing	(9)	(25)
(d) leased assets	-	-
(e) staff costs	(268)	(652)
(f) administration and corporate costs	(350)	(744)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(7)	(25)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	10	28
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(513)	(1,083)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(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 (9 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	576	1,128
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	-	29
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	576	1,157

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	123	103
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(513)	(1,083)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	576	1,157
4.5	Effect of movement in exchange rates on cash held	11	20
4.6	Cash and cash equivalents at end of period	197	197

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	197	123
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)	197	123

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	38
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	102	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	102	-
7.5 Unused financing facilities available at quarter end		102
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)	(513)
8.2 Cash and cash equivalents at quarter end (item 4.6)	197
8.3 Unused finance facilities available at quarter end (item 7.5)	102
8.4 Total available funding (item 8.2 + item 8.3)	299
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.60
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:
8.6.1	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: No. The net operating cash outflows are expected to be higher due to the costs associated with the acquisition of 100% of the share capital of Delta Drone South Africa from French listed entity Delta Drone SA – See ASX announcement dated 13 October 2020.
8.6.2	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: Yes. Following the end of the quarter, the Company executed a bridging loan agreement with Delta Drone SA for AU\$500,000 which will support the Company's cash needs until completion of the Delta Drone transaction. Further, the Company will seek ASX relisting in conjunction with the merger and a proposed capital raising of between A\$3.5m and A\$5.0m at an issue price of \$0.04 cents per share (see ASX announcement dated 13 October 2020).

8.6.3 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 Board is of the opinion that it will complete the successful acquisition of Delta Drone South Africa and raise sufficient funds via the proposed capital raising to meet its ongoing business objectives.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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 October 2020

Authorised by: By the board
(Name of body or officer authorising release – see note 4)

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.