

30 JUNE 2020 QUARTERLY ACTIVITY REPORT

Drone Safety Systems company **ParaZero Limited (ASX: PRZ) (ParaZero or the Company)** is pleased the following report and attached Appendix 4C to its shareholders for the quarter ending 30 June 2020.

Summary of cash flows and related activity

As at 30 June 2020, ParaZero had cash at bank of US\$123,000 whilst it was previously operating under a bank overdraft facility at 31 March 2020. This increase was directly related to the Company raising US\$331,000 via the issuance of Convertible Notes.

Net cash of US\$226,000 was used in operating activities compared with US\$344,000 for the quarter ending 31 March 2020, mainly due to a reduction in staff, administration and corporate costs from US\$477,000 for the quarter ending 31 March 2020 to US\$301,000 at 30 June 2020.

The drop in receipts from customers was mainly due to decreasing activities related to the COVID-19 pandemic.

In the post COVID-19 context, as foreshadowed in the March 2020 quarterly, the Company expects that demand for drone services globally will experience growth across a range of sectors including logistics, mining, oil & gas, agriculture, civil services and health.

During the quarter ended 30 June 2020, ParaZero raised US\$331,000 via Convertible Notes and has continued raising capital subsequent to the end of the June 2020 quarter, issuing further Convertible Notes for approximately US\$142,000.

Cashflow on activities in the quarter were as follows:

- Receipts down from US\$207k in the March quarter to US\$152k;
- Manufacturing and operating costs of US\$65k compared to US\$39k In March quarter;
- Advertising and marketing costs were constant at US\$8k;
- Staff costs down from US\$255k in the March quarter to US\$129k; and
- Administration and corporate costs down from US\$222k in the March quarter to US\$172k.

There were no other substantive business activities during the quarter.

ASX Listing Rule 4.7C.2 Information

Pursuant to the above Listing Rule the Company provides the below table as a comparison of actual expenditure against the "use of funds" table disclosed in the Replacement Prospectus (**Prospectus**) dated 30 April 2018 (ASX announcement of 14 June 2018).

Use of Proceeds Under Prospectus	Budgeted Expenditure Amount A(\$)	Actual Expenditure Amount A(\$)
Research and development ¹	1,693,441	(2,671,201)
Sales and marketing ²	1,426,077	(1,692,010)
Unallocated working capital and others ³	1,417,582	(3,807,880)
Expenses of the Offer	542,900	(594,738)
TOTAL	5,080,000	(8,765,829)
Add: Receipts from customers between admission and 30 June 2020		3,507,848
Add: Additional capital raise between admission and 30 June 2020		3,872,240
Less: Product manufacturing and operating costs as disclosed in Appendix 4C		(3,513,730)
Funds at 30 June 2020		180,529

Explanation of variances

1. The variance on R&D includes the development of the Safe Air 2 unit for Mavic Drone, the ASTM certification for Safe Air 2 to support both Phantom 4 and Mavic and the development and certification of a new generation of safety device for Airobotics
2. The variance on S&M includes online marketing expenses for Safe Air 2 to support initial attempts to distribute via Company site and Amazon platform.
3. The significant variance on this item is due to the establishment of an Israeli Logistic & production team, recruitment of a full time COO , VP R&D and VP Policy& Strategy , funds related to the public entity, Policy and regulatory expenses and unexpected expenses on professional services and consultancy

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\$44,000 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-

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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")

30 JUNE 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	152	359
1.2 Payments for		
(a) research and development	(3)	(31)
(b) product manufacturing and operating costs	(65)	(104)
(c) advertising and marketing	(8)	(16)
(d) leased assets	-	-
(e) staff costs	(129)	(384)
(f) administration and corporate costs	(172)	(394)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(12)	(18)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	11	18
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(226)	(570)
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 (6 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	331	552
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	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	360	581

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	(11)	103
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(226)	(570)
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 (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	360	581
4.5	Effect of movement in exchange rates on cash held	-	9
4.6	Cash and cash equivalents at end of period	123	123

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	123	-
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)	123	(11)

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	44
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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	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	101	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	101	-
7.5 Unused financing facilities available at quarter end		101
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)	(226)
8.2 Cash and cash equivalents at quarter end (item 4.6)	123
8.3 Unused finance facilities available at quarter end (item 7.5)	101
8.4 Total available funding (item 8.2 + item 8.3)	224
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1
<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 planned steps to revive the operating activity following steps taken by the Company to reduce expenses during the COVID-19 crisis.	
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. The Company raised an additional A\$200,000 worth of convertible notes subsequent to the June 2020 quarter end and will raise an additional A\$100,000 which is already secured and will be received in August 2020. The Company is in incomplete and confidential negotiations for a transaction, that, if successful, will improve the Company's overall financial position.	

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 Company expects to return to normal and consistent operations during 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.

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: 31 July 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.