
PARAZERO LIMITED

(TO BE RENAMED “DELTA DRONE INTERNATIONAL LIMITED”)

ACN 618 678 701

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that the Extraordinary General Meeting will be held at:

Time: 4:00pm (Melbourne time)

Date: 3 December 2020

Place: By Virtual Meeting Facility

This Notice, the accompanying Explanatory Statement and the Independent Expert’s Report should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Independent Expert’s Report: Shareholders should carefully consider the Independent Expert’s Report prepared by RSM Corporate Australia Pty Ltd accompanying the Explanatory Statement as Annexure A for the purposes of the Shareholder approval required under item 7 of section 611 of the Corporations Act (proposed by Resolution 4). The Independent Expert’s Report concludes that the Proposed Transaction the subject of this Notice of Meeting (and in particular, Resolution 4), is not fair but reasonable to non-associated Shareholders.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that an Extraordinary General Meeting of shareholders of ParaZero Limited (“**ParaZero**” or the “**Company**”) will be held at 4:00pm (Melbourne time) on 3 December 2020 (the “**Meeting**”) to conduct the business specified below.

The Explanatory Statement which accompanies and forms part of this Notice of Meeting more fully describes the matters to be considered at the Meeting. This Notice of Meeting should be read in conjunction with the Explanatory Statement.

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders of the Company at 7:00pm (Melbourne time) on 1 December 2020.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary contained on page 54 of the Explanatory Statement.

BUSINESS OF THE MEETING

AGENDA

The following business is to be transacted at the Meeting.

1 RESOLUTION 1 – APPROVAL FOR CHANGE TO NATURE AND SCALE OF ACTIVITIES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to all other Transaction Resolutions being passed, for the purposes of ASX Listing Rule 11.1.2 and for all other purposes, the Company be authorised to make a significant change to the nature and scale of its activities by completing the Proposed Transaction as set out in the Explanatory Statement.”

Short Explanation: The Company has entered into a Share Sale Agreement with Delta Drone SA pursuant to which the Company has agreed to acquire all of the issued capital in Delta Drone South Africa (“**DDSA**”) (the “**Proposed Transaction**”). The Proposed Transaction, if successful, will result in the Company changing the nature and scale of its activities. ASX Listing Rule 11.1.2 requires the Company to seek Shareholder approval where it proposes to make a significant change to the nature and scale of its activities.

Voting exclusion statement:

The Company will disregard any votes cast in favour of Resolution 1 by or on behalf of:

- (a) Delta Drone SA and any other person who will obtain a material benefit as a result of the Proposed Transaction (except a benefit solely by reason of being a holder of shares in the Company); or
- (b) an Associate of those persons.

However, this does not apply to a vote cast in favour of Resolution 1 by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on this Resolution 1, in accordance with directions given to the proxy or attorney to vote on this resolution in that way;
- (d) the Chair as proxy or attorney for a person who is entitled to vote on this Resolution 1, in accordance with a direction given to the Chair to vote on this resolution as the Chair decides; or
- (e) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting on this resolution; and
 - (ii) the holder votes on this resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

2 RESOLUTION 2 – CREATION OF PERFORMANCE SHARES

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

“That, subject to all other Transaction Resolutions being passed, for the purpose of section 246B(1) of the Corporations Act and clause 2.4 of the Constitution and for all other purposes, the Company is authorised to create and issue the Performance Shares on the terms and conditions set out in the Explanatory Statement.”

3 RESOLUTION 3 – APPROVAL OF PERFORMANCE SHARES TO DELTA DRONE SA

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to all other Transaction Resolutions being passed, for the purposes of ASX Listing Rule 6.1, ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of 45,000,000 Performance Shares to Delta Drone SA, on the terms and conditions set out in this Explanatory Statement.”

Voting exclusion statement:

The Company will disregard any votes cast in favour of Resolution 3 by:

- (a) Delta Drone SA and any other person who will participate in, or who will obtain a material benefit as a result of the Proposed Transaction (except a benefit solely in the capacity of a holder of shares in the Company); or
- (b) an Associate of those persons.

However, this does not apply to a vote cast in favour of Resolution 3 by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on this Resolution 3, in accordance with directions given to the proxy or attorney to vote on this resolution in that way;
- (d) the Chair as proxy or attorney for a person who is entitled to vote on this Resolution 3, in accordance with a direction given to the Chair to vote on this resolution as the Chair decides; or
- (e) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting on this resolution; and
 - (ii) the holder votes on this resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

4 RESOLUTION 4 – ISSUE OF SHARES IN CONNECTION WITH THE PROPOSED TRANSACTION, PROPOSED CAPITAL RAISING AND CONVERSION SHARES TO DELTA DRONE SA

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to all other Transaction Resolutions being passed, for the purposes of section 208 and item 7 section 611 of the Corporations Act and for all other purposes, Shareholder approval is given for Delta Drone SA to acquire a relevant interest in up to 297,458,636 Shares comprising of:

- (A) 203,512,750 Consideration Shares;*
- (B) 45,000,000 Performance Conversion Shares;*
- (C) 27,205,882 Conversion Shares; and*
- (D) 12,500,000 Shares under the Proposed Capital Raising,*

which, together with the 9,240,004 Shares already held by Delta Drone SA, will result in Delta Drone SA’s relevant interest in issued voting Shares of the Company increasing from 6.6% up to 64.2%¹, on the terms and conditions set out in the Explanatory Statement.”

Independent Expert’s Report

The Company has engaged RSM Corporate Australia Pty Ltd as the Independent Expert to prepare a report expressing its opinion as to whether or not the Proposed Transaction the subject of this Notice of Meeting (and in particular, Resolution 4) is fair and reasonable to non-associated Shareholders. Shareholders should carefully consider the Independent Expert’s Report set out in Annexure A of the Explanatory Statement. The Independent Expert has concluded in its report that the Proposed Transaction is not fair but reasonable to the non-associated Shareholders.

Voting exclusion statement:

The Company will disregard any votes cast in favour of Resolution 4 by:

- (b) Delta Drone SA and any other person who will obtain a material benefit as a result of the Proposed Transaction (except a benefit solely in the capacity of a holder of shares in the Company); or
- (c) an Associate of those persons.

However, this does not apply to a vote cast in favour of Resolution 4 by or on behalf of:

- (d) a person as proxy or attorney for a person who is entitled to vote on this Resolution 4, in accordance with directions given to the proxy or attorney to vote on this resolution in that way;
- (e) the Chair as proxy or attorney for a person who is entitled to vote on this Resolution 4, in accordance with a direction given to the Chair to vote on this resolution as the Chair decides; or
- (f) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

¹ This includes the conversion of the Second Tranche Notes and Third Tranche Notes (as defined below) into Shares. This also assumes that no other securities are issued by the Company before Completion and otherwise prior to the conversion of the Performance Shares. This also assumes that the Company raises the minimum \$3.5 million under the Proposed Capital Raising.

- (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting on this resolution; and
- (ii) the holder votes on this resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

5 RESOLUTION 5 – ISSUE OF SHARES UNDER THE PROPOSED CAPITAL RAISING

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to all other Transaction Resolutions being passed, for the purposes of ASX Listing Rule 7.1 and for all other purposes, the Shareholders approve the issue and allotment of up to 125,000,000 Shares at an issue price of \$0.04 per Share, to raise up to \$5 million, on the terms and conditions set out in the Explanatory Statement.”

Voting exclusion statement:

The Company will disregard any votes cast in favour of Resolution 5 by or on behalf of:

- (a) any person who is expected to participate in, or who will obtain a material benefit, as a result of, the proposed issue (except a benefit solely by reason of being a holder of shares in the Company); or
- (b) an Associate of those persons.

However, this does not apply to a vote cast in favour of Resolution 5 by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on this Resolution 5, in accordance with directions given to the proxy or attorney to vote on the resolution in that way;
- (d) the Chair as proxy or attorney for a person who is entitled to vote on this Resolution 5, in accordance with a direction given to the Chair to vote on this resolution as the Chair decides; or
- (e) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting on this resolution; and
 - (ii) the holder votes on this resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

6 RESOLUTION 6 – APPROVAL OF CONVERTIBLE NOTES BECOMING CONVERTIBLE

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve:

- (A) the Convertible Notes becoming convertible; and*
- (B) the issue of the Conversion Shares to Delta Drone SA on conversion of the indebtedness under the Second Tranche Notes and the Third Tranche Notes to Shares,*

in accordance with the terms of the Notes and on the terms and conditions set out in the Explanatory Statement.”

Voting exclusion statement:

The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of:

- (a) Delta Drone SA and any other person who will obtain a material benefit as a result of the Proposed Transaction (except a benefit solely in the capacity of a holder of shares in the Company); or
- (b) an Associate of those persons.

However, this does not apply to a vote cast in favour of Resolution 6 by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on this Resolution 6, in accordance with directions given to the proxy or attorney to vote on this resolution in that way;
- (d) the Chair acting as proxy or attorney for a person who is entitled to vote on this Resolution 6, in accordance with a direction given to the Chair to vote on this resolution as the Chair decides; or
- (e) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this resolution; and
 - (ii) the holder votes on this resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

7 RESOLUTION 7 – APPOINTMENT OF PROPOSED DIRECTOR – CHRISTOPHER CLARK

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to all other Transaction Resolutions being passed, for the purpose of clause 14.3 of the Constitution and for all other purposes, Christopher Clark be elected as a Director with effect from Completion on the terms and conditions set out in the Explanatory Statement.”

8 RESOLUTION 8 – CHANGE OF NAME

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

"That, subject to all other Transaction Resolutions being passed, for the purpose of section 157(1)(a) of the Corporations Act and for all other purposes, approval is given for the name of the Company to be changed to Delta Drone International Limited and, for the purposes of section 136(2) of the Corporations Act and for all other purposes, all references to "ParaZero Limited" in the Constitution of the Company be replaced with references to "Delta Drone International Limited", on the terms and conditions set out in the Explanatory Statement."

Dated: 3 November 2020

By order of the Board

ParaZero Limited



Stephen Buckley

Company Secretary

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return it:

- in person at Automic, Level 5, 126 Phillip Street, Sydney NSW 2000;
- by post to Automic, PO Box 5193, Sydney NSW 2001;
- by facsimile to +61 (0)2 8583 3040;
- by scan and email to meetings@automicgroup.com.au; or
- by following the directions on the Proxy Form.

All proxy forms must be received by the Company not later than 4:00pm (**Melbourne time**) on 1 December **2020**.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

In addition:

- if a proxy is given by a body corporate, a Proxy Form must be executed in writing under the common seal of the corporation or otherwise in accordance with section 127 of the Corporations Act or signed by an attorney;
- if a proxy is given by a natural person, a Proxy Form must be executed under the hand of that person or that person's attorney;
- to be effective, the Proxy Form and the power of attorney or other authority under which it is signed (or a certified copy), must be received by the Company at least 48 hours before the time for holding the Meeting or any adjourned Meeting; and
- any Proxy Form received after this deadline will be treated as invalid.

Corporate Representative

Any corporate Shareholder who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or the share registry in advance of the Meeting. An appointment of corporate representative form can be obtained via the Company's share registry website – www.automic.com.au.

Virtual Meeting

In accordance with the COVID-19 guidelines provided by the Commonwealth and State governments, the Federal Treasurer has issued the Corporations (Coronavirus Economic Response) Determination (No.1) 2020 that permits companies to hold fully virtual general meetings. Accordingly, the meeting will be held via an online meeting platform powered by the Company's share registry, Automic.

All Resolutions considered at the Meeting will be decided by poll based on proxy votes received prior to the commencement of the Meeting and votes cast via voting facility during the Meeting.

Shareholder voting

Whilst live voting will be available during the Meeting, Shareholders are strongly encouraged to submit their votes by proxy to ensure that their votes are counted. Instructions on how to submit votes by proxy are contained within the “voting by proxy” section above.

Attending and voting online at the Virtual Meeting

To watch, listen and vote online at the Meeting, Shareholders can attend the Meeting at the date and time set out in this Notice, being 4:00pm on 3 December 2020 by following the instructions below:

- 1 Open your internet browser and go to investor.automic.com.au
- 2 Login with your username and password or click “**register**” if you haven’t already created an account. **Shareholders are encouraged to create an account prior to the start of the Meeting to ensure there is no delay in attending the Meeting**
- 3 After logging in, a banner will be displayed at the top when the Meeting is open for registration, click on “**View**” when this appears
- 4 Click on “**Register**” and follow the steps
- 5 Click on the URL to join the webcast where you can participate in the Meeting by viewing, listening and asking questions
- 6 Once the Chair has declared the poll open for voting click on “**Refresh**” to be taken to the voting screen
- 7 Select your voting direction and click “**confirm**” to submit your vote. **Note that you will not be able to amend your vote after it has been submitted**

Further information and support on how to use the platform is available on the share registry website – www.automic.com.au. It is recommended that you register to use the registry website well in advance of the Meeting to save time on the day of the Meeting. Should you have any difficulties, you can contact the registry by telephone on 1300 288 664 (within Australia) and +61 2 9698 5414 (overseas).

You may still attend the Meeting and vote even if you have appointed a proxy. If you have previously submitted a Proxy Form, your attendance at the Meeting will not revoke your proxy appointment unless you actually elect to attend as a voting holder at the Meeting for which the proxy is proposed to be used, in which case, the proxy’s appointment will be deemed to be revoked with respect to voting.

Shareholder questions

Shareholders will also be given a reasonable opportunity to ask questions related to the business of the Meeting, the Company’s operations or of the Auditor during the Meeting. **Should you wish to discuss the matters in this Notice please do not hesitate to contact the Company Secretary on +61 8 6189 1155.**

Explanatory Statement

This Explanatory Statement is provided to Shareholders to explain the resolutions to be put to Shareholders at the Extraordinary General Meeting.

This Explanatory Statement forms part of, and should be read in conjunction with, the Notice. The Directors recommend that Shareholders read this Explanatory Statement in full (including the Independent Expert's Report which is enclosed as Annexure A) before making any decisions in relation to the Resolutions. The Directors also recommend that Shareholders read in full the ASX Announcement released by the Company dated 13 October 2020 (in respect of the Proposed Transaction) before making any decisions in relation to the Transaction Resolutions.

Shareholders are encouraged to cast their vote by proxy prior to the Meeting in accordance with the instructions set out on page 7 and 8 of the Notice.

1 BACKGROUND AND SUMMARY OF THE PROPOSED TRANSACTION

1.1 Background

ParaZero Limited (ASX:PRZ) ("**ParaZero**" or the "**Company**") is an Australian public company and is listed on the Official List of ASX. The Company was incorporated on 21 April 2017 and was admitted to the Official List of ASX on 14 June 2018. The Company specialises in the design, manufacture and distribution of autonomous drone parachute and safety systems as well as regulatory compliance management for drones in commercial use. The Company uses state of the art technologies developed and owned by ParaZero.

The Company has focused heavily on research and development and is still in the early stages of the commercialisation of its product. Nevertheless, the Company is considered a market leader in drone safety systems and regulatory compliance, playing a key role in advancing the commercial drone industry.

The Company's unique technology for drones is designed to protect hardware, people and payload. The Company's SafeAir system independently monitors flight operations of the drone and can detect a drone failure in-flight. This triggers a patented ballistic parachute to provide a controlled descent and a warning to bystanders through an alarm system. The SmartAir system also records flight data for statistical analysis and black box reporting, which is a requirement for international aviation reliability standards.

The Company sells its drone safety systems to customers on a project-by-project basis and as a finished product to developers and original equipment manufacturers of drone systems.

The Company's revenue to date has been derived from the sale of its technology, as well as its accompanying software, ongoing aftermarket support and maintenance fees. In FY19, the Company doubled its revenue compared to FY18 and extended its offering of products and services. In a post COVID-19 context, the Company expects that the demand for drones and drone services will increase rapidly particularly in the mining, logistics, oil and gas, agriculture, civil services and health sectors.

1.2 Proposed Transaction

On 12 March 2020, the Company announced its intention to acquire DDSA from Delta Drone SA. The Proposed Transaction is to be implemented by way of a share

sale pursuant to which the Company will acquire 100% of the issued share capital in DDSA. A summary of the Share Sale Agreement is set out in Section 1.5 below.

The Proposed Transaction involves the following key elements which are subject to Shareholder approval:

- (a) a change to the Company's nature and scale of activities (see Resolution 1);
- (b) the creation of a new class of securities, being the Performance Shares (see Resolution 2);
- (c) the issue of 45,000,000 Performance Share in accordance with the Share Sale Agreement (see Resolution 3);
- (d) the issue of 203,512,750 Consideration Shares and 45,000,000 Performance Share in accordance with the Share Sale Agreement, 27,205,882 Conversion Shares upon conversion of the Convertible Notes, and 12,500,000 Shares under the Proposed Capital Raising to Delta Drone SA (see Resolution 4);
- (e) an offer of 125,000,000 Shares for the purpose of raising capital. The Proposed Capital Raising will be at an issue price of \$0.04 per Share to raise up to \$5 million (see Resolution 5);
- (f) the appointment of Christopher Clark as a Director of the Company from Completion (see Resolution 7); and
- (g) the change of the name of the Company to Delta Drone International Limited (see Resolution 8).

1.3 Indicative Timetable

Set out below is the expected timetable for completion of the Proposed Transaction and Proposed Capital Raising.

Action	Date
Prospectus lodged with ASIC	6 November
Opening Date of the Proposed Capital Raising under the Prospectus	23 November
Shareholders to approve the Resolutions at the Extraordinary General Meeting	3 December
Closing date of the Proposed Capital Raising under the Prospectus	4 December
Completion of the Proposed Transaction	7 December
Issue of Shares under the Proposed Capital Raising	8 December
Despatch of holdings statements	9 December
Re-quotation of the Shares on ASX	18 December

*These dates are indicative only and are subject to change without notice. The actual timetable will depend upon the timing of ASX approval.

1.4 Overview of Delta Drone South Africa (DDSA)

DDSA is wholly owned by Delta Drone SA. Delta Drone SA is listed on Euronext Growth Paris. In 2016, DDSA acquired 74% of South Africa's Rocketmine Pty Ltd. DDSA is headquartered in Johannesburg and specialises in the provision of drone services for commercial use. DDSA is a market leader in the provision of these services to mining and agricultural companies in Southern Africa. DDSA operates in South Africa (Johannesburg), Ghana (Accra) and Namibia (Arandis).

DDSA operates through multiple trading companies, including Rocketmine South Africa, Rocketmine Ghana and Drone Safety and Legal.

Under the Rocketmine brand, DDSA offers a range of services including aerial surveying and mapping, security and surveillance, and blast monitoring and fragment analysis.

DDSA derives the majority of its revenue from providing drone services and technology solutions to mining and agricultural companies.

Over the past six years, the Rocketmine division of DDSA has built strong and enduring relationships with its mining customers. These customers utilise Rocketmine's services to conduct aerial survey data collection and analysis.

DDSA's clients include listed companies such as South32 and Newmont Mining. DDSA is currently expanding its offering into new markets including Australia, where it is targeting the mining industry.

Through the COVID-19 pandemic, DDSA has shown resilience due to its long-term contracts and the essential nature of its survey and mapping solutions for the operational mining environment.

1.5 Key terms of the Share Sale Agreement

On 7 October 2020, the Company entered into a Share Sale Agreement with Delta Drone SA to acquire, subject to the satisfaction of the condition precedent, 100% of the issued capital in DDSA. Under the Proposed Transaction, Delta Drone SA will be entitled to receive 203,512,750 Consideration Shares and up to 45,000,000 Performance Shares. The key terms of the Share Sale Agreement are set out below:

- (a) **(Conditions Precedent):** Completion under the Share Sale Agreement is subject to the Company re-complying with the requirements to re-list on the Official List (or a waiver of such condition precedent) ("**Condition Precedent**"). Under the Share Sale Agreement, the Condition Precedent must be satisfied by 31 December 2020 unless otherwise agreed to be extended by the parties.
- (b) **(Consideration):** Upon completion of the Proposed Transaction, the Company will issue 203,512,750 Consideration Shares to Delta Drone SA. As part of the agreed incentive arrangements, the Company will also issue to Delta Drone SA, subject to the achievement of the Performance Milestones, up to 45,000,000 performance shares in three tranches as deferred consideration ("**Performance Shares**"). The Performance Shares will be issued in three tranches, with each Performance Share converting into one Share subject to the achievement of the following milestones set out below:
 - (i) **Class A Performance Shares**
20,000,00 Class A Performance Shares will convert into Shares on a one-for-one basis if DDSA achieves consolidated revenue (only DDSA and excluding the Company) for any full financial year (being

1 January to 31 December) during the three-year term of the Class A Performance Shares of not less than US\$3.2 million (based on audited accounts) ("**First Performance Milestone**").

(ii) **Class B Performance Shares**

Class B Performance Shares will convert into Shares on a one-for-one basis if during the three year term of the Class B Performance Shares, DDSA enters into at least two binding contracts with Australian based mining companies (being companies that conduct mining, exploration or extraction activities) for the provision of drone survey or mapping solutions services to those mining companies in Australia ("**Services**") and DDSA receives not less than US\$1,000,000 (based on audited accounts) of verified revenue in aggregate from such executed contracts received within the three year term of the Performance Shares for its Services ("**Second Performance Milestone**").

(iii) **Class C Performance Shares**

Class C Performance Shares will convert into Shares on a one-for-one basis if during the three year term of the Class C Performance Shares the Company announces to the ASX that DDSA has expanded the services of its business offering (being the provision of drone survey and mapping solutions) into a new geographic location outside of Australia, Israel, South Africa, Ghana and Namibia and achieved revenue in that new geographic location of not less than US\$1,000,000 (based on audited accounts) ("**Third Performance Milestone**").

The full terms of the Performance Shares are set out in Schedule 1.

- (iv) (**Completion**): Completion of the Proposed Transaction will take place immediately prior to the date on which the Shares are issued under the Proposed Capital Raising, following shareholder approval and ASX approval to the relisting ("**Completion**").

The Share Sale Agreement is otherwise on terms and conditions considered standard for agreements of this nature, including warranties and indemnities given in favour of the Company.

In connection with the Proposed Transaction, Delta Drone SA has obtained approval from the Federal Treasurer to be issued Shares in accordance with the requirements of the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

1.6 DDSA Business Model

DDSA is a multinational group which aims to remove the compliance obstacles in relation to the provision of drone services to the mining, agricultural and engineering industries.

The business was built to meet the demand for fast and accurate survey data, as well as to support all the regulatory, insurance and maintenance requirements needed to run these services safely and consistently.

DDSA currently operates under three diverse brands. These allow the business to be scalable and meet the demands of fast moving enterprise customers across multiple countries whilst maintaining consistency and quality.

DDSA's business model is dependent on DDSA receiving governmental licenses, permits and other regulatory approvals in order to operate its services in Southern Africa. DDSA only requires Civil Aviation Safety Authority ("CASA") approval and a remotely piloted aircraft operator certificate from the relevant regional authority to use its technology. Delta Drone Safety and Legal (Pty) Ltd has been granted training approval from the civil aviation authority in South Africa. DDSA holds CASA approvals and operating certificates in South Africa, Ghana and Namibia. DDSA also holds the following additional licenses and other regulatory approvals in relation to its business operations:

- Department of Transport Air Services Licence (South Africa);
- Minerals Commission Licence (Ghana); and
- Namibia Civil Aviation Authority Flight Operating Exemption (Namibia).

DDSA plans to expand its operations into the Australian drone services market where it sees significant opportunities to leverage its existing operational expertise and the Company's safety technology within the mining industry. DDSA will operate in Australia through its Australian subsidiary, Rocketmine Australia. Rocketmine Australia has been granted the necessary RPA operating certificate to operate from the Civil Aviation Safety Authority. This certificate is effective from 29 July 2020 and will expire on 31 July 2021.

The Rocketmine Brand

The Rocketmine Brand provides various data acquisition services to enterprise mining customers. These customers operate in both opencast and underground mining. Rocketmine provides the hardware, software and a professional drone pilot to these customers for the purposes of conducting surveying, mapping, high-wall modelling and fault detection.

The Rocketfarm Brand

The Rocketfarm Brand provides state-of-the-art and survey grade drone equipment to enterprise customers in the seed and chemical sectors. The Rocketfarm brand also provides customers with a professional drone pilot for the purposes of data collection that can be fed into precision farming equipment. The Rocketfarm brand offering allows seed and chemical companies to measure the efficacy of their products over time.

The DSL Brand

The DSL Brand provides direct training to enterprise customers who would like to train their own teams, as well as to individuals looking to augment a drone license with an industry specific accreditation. The DSL Brand has partnered with local universities in South Africa to provide specialised drone training within the mining, agricultural and engineering fields.

1.7 DDSA's Commercial Arrangements

DDSA operates through its subsidiaries: Rocketmine South Africa, Rocketmine Ghana and Drone Safety and Legal. The bulk of DDSA's commercial arrangements are associated with Rocketmine South Africa. Its customers sign extended contracts for services and include large mining and agricultural companies across Southern Africa.

Rocketmine South Africa engages directly with its respective customers whether for individual mine sites, or more broadly across a whole corporate group, to provide a comprehensive range of drone and data collection services. These

relationships are increasingly moving towards longer-term master services arrangements.

The following commercial arrangements are currently in place and are intended to continue post completion of the Proposed Transaction:

- (a) a two year contract with South32 to provide survey, mapping and high-wall inspection services beyond September 2020, for its Mamantwan Manganese Mine in Northern Cape, South Africa until H2 2022;
- (b) a 5 year contract with Newmont Gold Ridge Ltd (Ghana) in respect of survey, mapping and high-wall inspection services via drones that is expected to expire in H1 2023;
- (c) a renewed 12-month contract with CNNC (previously Rio Tinto) for the Rossing Uranium Mine in Namibia that is expected to come up for renewal in Q3 2021;
- (d) a 36 month letter of award to provide survey mapping services for Exxaro Belfast Coal Mine that is due to expire in H2 2023
- (e) a three-year services contract for survey, mapping and high-wall inspection via drones that is on foot until the end of 2021 with two of Assmang's mines, located in the Northern Cape region of South Africa that is due to expire in H2 2021; and
- (f) a formal purchase order dated 31 August 2020 to conduct a flare-tip proof-of-concept inspection for an oil and gas customer.

In the past six months, DDSA has issued 100 shares to Delta Drone SA in satisfaction of capitalisation of a historical shareholder loan provided by Delta Drone SA in the amount of R\$7 million. The shares were issued to Delta Drone SA on 28 July 2020.

1.8 Business Plan

The vision of the merged group is to build a globally oriented “drones-as-a-service” business based in Australia. The merged group proposes to initially provide drone services to key mining and agricultural markets in Southern Africa and Australia before expanding into other commercial and industrial sectors.

DDSA's Drone Safety and Legal subsidiary will continue to focus on training and personnel licensing in Southern Africa, with opportunities to establish a similar division in Australia in the future.

The merged group will also build its diverse customer base through the development of a range of additional enterprise software solutions. This will provide customers with access to high-resolution drone-captured data through a consolidated viewing platform.

The current regulatory framework makes flying drones in urban or populated areas prohibitively expensive due to licensing requirements and safety concerns. Regulatory bodies charge significant fees for licensing and require comprehensive plans for safety compliance. The Company's systems and know-how will result in quicker and cheaper approvals being granted.

The combination of DDSA operating experience and ParaZero's leading safety technology will create a distinct competitive advantage with an ability to offer services into highly regulated parts of the market where such regulations have historically been the key barrier to entry.

The merged group has comprehensive capabilities to offer commercial drone services into all parts of the market, including rural, urban and populated areas as well as in difficult conditions such as those with Beyond Visual Line of Site and Night-Rating Operating Standards. These are currently being deployed across DDSA's South African and Ghanaian operations and will be introduced in Australia and other international markets in due course.

The merged group believes that over time, it will be in a strong position to introduce its services to a broad range of industrial and commercial markets that are currently finding it difficult to overcome the regulatory and operational burdens of flying their own drones.

1.9 Key Investment Highlights

DDSA and the Company are merging to become Delta Drone International Limited in order to expand the merged group's "drones-as-a-service" business into new industry sectors.

The combination of DDSA's operating know-how and ParaZero's technology will provide the merged group with significant competitive advantages from an operational, safety, regulatory and cost perspective.

The merged group will leverage its existing relationships from Africa into the mining and agriculture sectors in both the African and Australian markets to target new operations with these customers, as well as launching a local marketing team in Australia to target new opportunities.

The Company intends to launch an Australian operation in early 2021 to target local mining and agricultural businesses before offering its services into industries requiring drone services in urban or populated areas.

The Proposed Transaction will strengthen the short and long-term prospects of the Company, with combined revenue in CY19 of approximately US\$4.13 million and A\$5.79 million² and historical revenue growth exceeding 40%³ per annum. The Company expects that it will be able to grow significantly as industries open up post COVID-19.

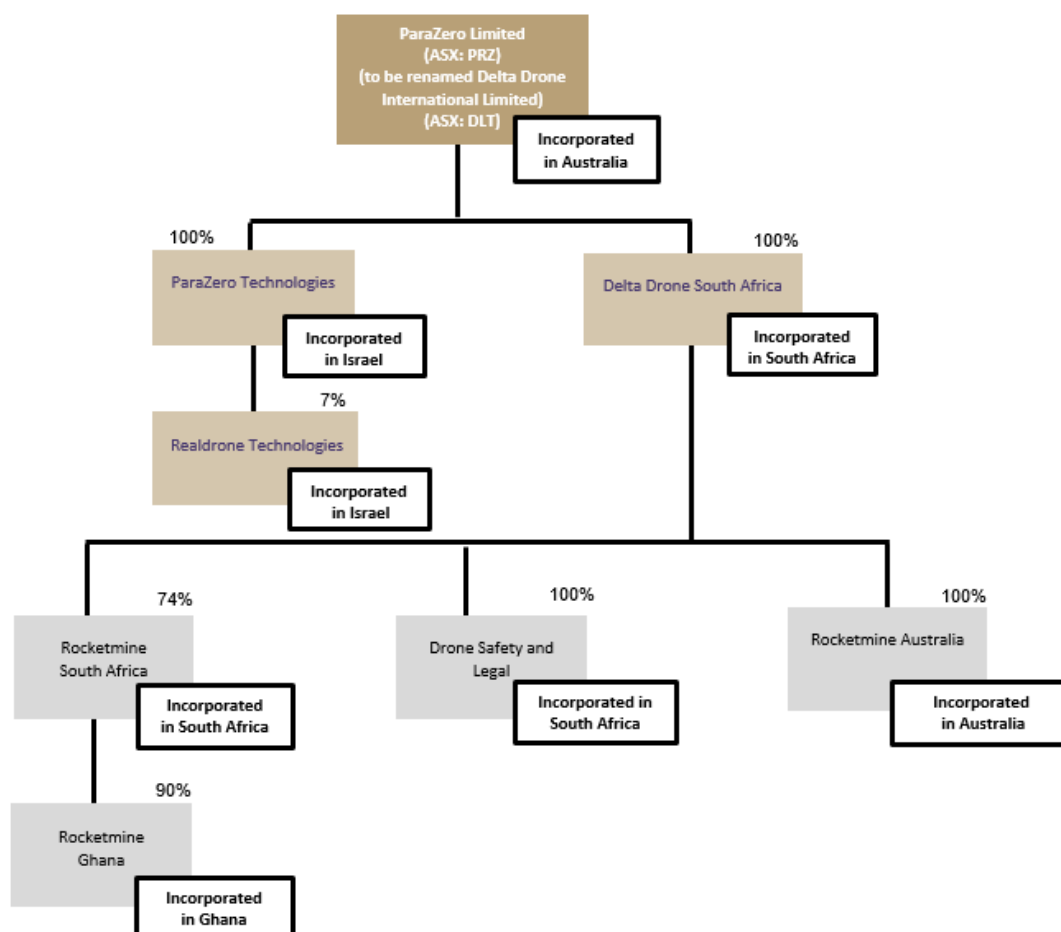
The Proposed Capital Raising will bolster the Company's balance sheet and allow it to build the marketing team and operational infrastructure to go out and win new business in Southern Africa and Australia.

² DDSA's CY19 combined revenue is approximately US\$4,128,800 which based on the exchange rate of 1 USD = \$0.712430 as at 7 October 2020 is A\$5,787,253.22.

³ Based on the audited revenue of Parazero and DDSA for the financial years ended 2018 and 2019, DDSA's revenue has been translated to USD based on an exchange rate of 0.0577 being the rate at 30 June 2020.

1.10 Group Structure

The Company's group structure following completion of the Proposed Transaction is shown in the figure below:



In accordance with the BEE Act of South Africa, enterprises achieving a high level of compliance (which necessitates having a Black ownership component) benefit as they are afforded preference when tendering for the provision of services to other enterprises or government institutions. In order to achieve the highest BEE Act compliance rating, 26% of the ordinary share capital of Rocketmine (Pty) Ltd (Rocketmine South Africa) is held by Delta Drone Empowerment (Pty) Ltd, an enterprise that is wholly owned by Black people. Similarly, 10% of the ordinary share capital of Rocketmine Limited (Rocketmine Ghana) is held by Tony Nhyira Aikins, a resident of Ghana.

1.11 Proposed Directors on Completion of the Proposed Transaction

On completion of the Proposed Transaction, each of the existing Directors will remain as Directors of the Company and Christopher Clark will join the Board, subject to approval under Resolution 7. Accordingly, on completion of the Proposed Transaction, the Board will comprise Christopher Clark, Eden Attias, Chris Singleton, Stephen Gorenstein and Dan Arazi. It is also proposed that Mr Clark will become the Company's CEO upon relisting, with current CEO Eden Attias becoming Executive Chairman of the Company. Profiles of the directors are provided below.

(a) **Christopher Clark, Chief Executive Officer**

Subject to Shareholder approval of Resolution 7, the incoming Chief Executive Officer is intended to be Christopher Clark. Mr Clark has been involved in the mining services sector for over 10 years in South Africa, beginning with technology and communication projects for mining giant Anglo American. Mr Clark is currently the Group Managing Director for DDSA and Rocketmine. Mr Clark has spearheaded the development of the group across Africa, including in Ghana and Namibia, and has set up new verticals of the business in agriculture and executive training. Mr Clark holds a Bachelor of Accounting from the University of Johannesburg as well as a Master of Business Administration from the University of Pretoria (Gordons Institute of Business Science).

(b) **Eden Attias, Executive Chairperson**

The Executive Chairperson is intended to be the current Company Chief Executive Officer, Eden Attias. Mr Attias has extensive experience and knowledge in the development of the Company's products and markets. Prior to joining the Company in 2015, Israel nominated Mr Attias as its first Ministry of Defence attached to Ottawa, Canada. In this role, Mr Attias spearheaded the defence relationship between the two nations and greatly enhanced cooperation for military and security organisations. Under his command, the office created new trade opportunities for firms and facilitated long lasting international cooperation between the military and defence industries in both countries. Mr Attias has a distinguished military resume, having served in Israel's Air Force ("IAF") as a pilot and as a leader in numerous positions for over 30 years, achieving the rank of Brigadier General. During his tenure, he oversaw the move of the IAF's airlift base from Lod to the Nevatim air base in the Negev. He then commanded the Nevatim airbase from 2008 to 2011. Mr Attias holds a Bachelor of Computer Science and Philosophy from Tel Aviv University and a Masters in Public Administration from the University of Haifa.

(c) **Chris Singleton, Independent Non-Executive Director**

Chris Singleton is currently an independent non-executive director of the Company and is intended to remain so. Mr Singleton has extensive international experience in oil and gas, manufacturing, technology, telecommunications and service industries. He is currently the Managing Director of Minaret Capital, a provider of corporate advisory and growth strategies to Australian businesses. Mr Singleton has held numerous directorship roles with public and private companies and has successfully founded and sold businesses including:

- (i) Votel, a service provider acquired by Vodafone;
- (ii) B Digital, funded by Australian Capital Equity and later acquired by Soul Pattinson;
- (iii) Impress Energy, acquired by Beach Petroleum and recruitment solutions; and
- (iv) Total Staffing Solutions and Ultimate Skills, both of which were acquired by Humanis Group.

(d) **Stephen Gorenstein, Independent Non-Executive Director**

Stephen Gorenstein is currently an independent non-executive Director of the Company and is intended to remain so. Mr Gorenstein has over 16

years' experience in capital markets including analyst roles at both Goldman Sachs and Merrill Lynch. He was formerly the Regional Head of Asia Pacific Metals and Mining at Bank of America Merrill Lynch. Mr Gorenstein has extensive networks in the Australian capital markets and is active in cross border transactions particularly sourcing high-quality technology companies from Israel looking to establish themselves in Australia. Mr Gorenstein is a non-executive director at White Rock Minerals Limited (ASX: WRM). Mr Gorenstein holds a Bachelor (Hons) in Science majoring in Geology and Geophysics from Monash University and a Masters in Accounting and Finance from Monash University. Mr Gorenstein is a director of Jindalee Partners.

(e) **Dan Arazi, Independent Non-Executive Director**

Dan Arazi is currently an independent non-executive Director of the Company and is intended to remain so. Mr Arazi is a serial entrepreneur and has been involved in a number of start-ups in Israel, most particularly in the telecom and internet space. He was a leading film producer in Israel and has been a member of the Board of Israeli Film Council. He is currently the Chairman of the Israel AeroClub Gliding Association and the President of the Keiretsu Forum, the Israeli Chapter of the 100+ Angels Club. Mr Arazi is also a co-founder and executive at Orkit Communications (NASDAQ: ORCT).

1.12 Director and Proposed Director Interests in Securities

As at the date of this Explanatory Statement and following the successful Completion of the Proposed Transaction and the Proposed Capital Raising, the Directors disclose the following relevant interests in securities of the Company. None of the Directors intend to participate in the Proposed Capital Raising:

Director	Shares	Options
Christopher Clark	0 Shares	0 Options
Eden Attias	559,717 Shares	5,598,837 Options expiring 13 June 2023 exercisable at \$0.0027 37,106 unlisted options expiring 24 June 2024 exercisable at \$0.1125
Stephen Gorenstein	400,000 Shares	37,106 unlisted options expiring 24 June 2024 exercisable at \$0.1125
Chris Singleton	200,000 Shares	18,553 unlisted options expiring 24 June 2024 exercisable at \$0.1125
Dan Arazi	359,000 Shares	25,956 unlisted options expiring 24 June 2024 exercisable at \$0.1125

1.13 Proposed Capital Raising and Use of Funds

In connection with the Proposed Transaction the Company will undertake an equity offering to raise between \$3.5 million to \$5.0 million in further capital. Pursuant to the Proposed Capital Raising, the Company will issue up to 125,000,000 Shares under a Prospectus at an issue price of \$0.04 per Share. The Prospectus will be issued in order to re-comply with ASX's admission and quotation requirements in accordance with Chapter 1 of the Listing Rules. The Company believes that \$3.5 million will be sufficient to meet its operating needs post-relisting for at least 18 months.

Delta Drone SA has expressed an intention to invest up to \$500,000 into the Proposed Capital Raising, subject to approval by Shareholders of Resolution 4.

The intended use of funds raised from the Proposed Capital Raising is as follows:

Item	Amount (based on Minimum Subscription)	Percentage of Funds	Amount (based on Maximum Subscription)	Percentage of Funds
Existing cash reserves of the Company as at Prospectus Date ⁴	\$171,190	4.66%	\$171,190	3.31%
Funds raised under the Proposed Capital Raising	\$3,500,00	95.34%	\$5,000,000	96.69%
<u>Total Funds Available</u>	\$3,671,190	100.00%	\$5,171,190	100.00%
Use of Funds – Cost of the Proposed Capital Raising:⁵				
Legal Fees	\$235,000	6.40%	\$235,000	4.54%
Accounting Fees	\$150,000	4.09%	\$150,000	2.90%
Brokerage Fees	\$210,000	5.72%	\$300,000	5.80%
ASX Listing and Prospectus Fees	\$44,372	1.21%	\$52,606	1.02%
Other Listing Costs	\$180,000	4.90%	\$180,000	3.48%
Expenditure on technology and infrastructure associated with the R&D in	\$1,296,113	35.30%	\$1,810,398	35.01%

⁴ Assumes 30 September 2020 lodgement date for this purpose.

⁵ This is only an estimate and these amounts may vary from actual expenditure as the Company intends to hire additional staff and has yet to finalise the timing and remuneration for these hires.

Australia and Israel ⁶				
Costs associated with expansion of operations of the South African office including new verticals ⁷	\$415,800	11.33%	\$415,800	8.04%
Costs to establish an Australian Head Office ⁸	\$357,143	9.73%	\$571,429	11.05%
Expenditure on Australian sales and marketing activities ⁹	\$571,402	15.56%	\$857,116	16.57%
Working capital ¹⁰	\$211,360	5.76%	\$598,841	11.59%
Total:	\$3,671,190	100.00%	\$5,171,190	100.00%

Note: Some of these items of expenditure may be paid in Israeli Shekels (NIS) or in South African Rand (ZAR). For this purpose, these items of expenditure have been calculated on the exchange rate of 2.26 NIS and 11.90 ZAR, as at 11 May 2020. Where current exchange rates differ from those used here, the figures quoted in the table shall be adjusted accordingly. The Company does not intend to implement hedging or derivative cover in respect of these payment obligations.

Expenditure	Amount (based on Minimum Subscription)	Amount (based on Maximum Subscription)
Industrial Designer	\$144,258	\$144,258
Mechanical Engineer	\$177,425	\$177,425
Product and Project Leader	\$260,955	\$260,955
System Engineer	\$271,040	\$271,040
Software Engineer	\$260,291	\$260,291
Hardware & Patents for Safety Systems	\$182,143	\$182,143

⁶ Research and Development Expenditure will include the development and implementation of new mapping software required for the mining services in Australia and Africa, the development of a new generation of drone safety devices and the purchase of the infrastructure (including the hardware and required drones) for the expansion of Delta Drone into the Australian market.

⁷ The Company is currently in the second year of developing the agriculture brand Rocket Farm, which focuses on supplying enterprise Drone Data services for the Precision Agriculture market. These costs include the new software development, hardware testing and hiring 4 new employees.

⁸ These costs include a central head office in Melbourne and two further branches in Adelaide and Brisbane with an aim to target the mining and agriculture sectors. These costs also include operations, management and administrative salaries.

⁹ These costs include the hiring of experienced business development managers, national travel costs, partnership and sponsorship activities.

¹⁰ These funds will be used to support the Company's cash flow, especially under its mining contracts which include 45-60 day payment terms.

Hardware for Mining Services	-	\$514,286
Total	\$1,296,133	\$1,810,398

1.14 Financial Information of the Company

Set out in Schedule 2 is the pro forma consolidated statement of financial position for the merged ParaZero and DDSA as at 30 June 2020, adjusted to reflect the Proposed Transaction and the Proposed Capital Raising.

Each of the Company and DDSA's 2018, 2019 and half year 2020 audited accounts can be found at <https://parazero.com/investor-relations/financial-reports/>.

1.15 Short-Term Bridge Financing

Delta Drone SA has agreed to provide short-term bridge financing by way of an unsecured line of credit up to \$500,000 ("**Loan Amount**"). The Loan Amount will incur interest at 10% per annum and must be repaid on the earlier of the date on which the Company's relisting on the ASX occurs or 6 months following initial draw-down (which has not yet occurred). None of the funds to be drawn via the Loan Amount are for post relisting purposes – they are to enable ParaZero to meet its expenses up to its expected time of relisting only, which is why repayment is structured to occur upon relisting.

1.16 Capital Structure

The capital structure of the Company prior to the Proposed Transaction taking place and following completion of the Proposed Transaction is set out below.

Capital Structure	Existing on issue	%	Based on \$3.5 mil raised	%	Based on \$5 mil raised	%
Existing Ordinary Shares	139,082,099	76.7%	139,082,099	25.0%	139,082,099	23.4%
Ordinary Shares for Acquisition Consideration	0	0.0%	203,512,750	36.6%	203,512,750	34.3%
Proposed Capital Raising Shares	0	0.0%	87,500,000	15.7%	125,000,000	21.0%
Ordinary Shares to be issued upon conversion of Convertible Notes	0	0.0%	27,205,882	4.9%	27,205,882	4.6%
CIH Broker Shares ¹¹	0	0.00%	6,000,000	1.1%	6,000,000	1.0%
Total ordinary share capital	139,082,099	76.7%	463,300,731	83.3%	500,800,731	84.3%
Options	15,026,696	8.3%	15,026,696	2.7%	15,026,696	2.5%
Delta Drone Performance Shares	0	0.0%	45,000,000	8.1%	45,000,000	7.6%
Future ESOP (unallocated)	0	0.0%	33,000,000	5.9%	33,000,000	5.6%
Convertible Notes	27,205,882	15.0%	0	0.0%	0	0.0%
Fully diluted capital	181,314,677	100.0%	556,327,427	100.0%	593,827,427	100.0%

1.17 Convertible Note Deeds – Second Tranche Notes and Third Tranche Notes

On 7 August 2020, the Company issued 11,806,672 Shares upon the conversion of 644,000 First Tranche Notes issued between 3 February 2020 and 27 April 2020 to Delta Drone SA and a number of other Shareholders of the Company. In consideration for the issuance of the First Tranche Notes the Company received \$644,000 from the Noteholders. The conversion of the First Tranche Notes was approved by Shareholders at the Company's annual general meeting held on 28 July 2020. The First Tranche Notes were converted into Shares at a conversion price of \$0.06 per share and in addition the noteholders received bonus shares ("**Bonus Shares**") equivalent to 10% of the First Tranche Note value at a conversion price of \$0.06 per share upon conversion of their First Tranche Notes.

¹¹ As set out in Section 2.5, ParaZero has agreed to issue CIH 6,000,000 Shares upon relisting in consideration for CIH having introduced the Company and DDSA to one another which resulted in the Proposed Transaction.

The Company applied the funds raised under the First Tranche Notes in accordance with the table set out below:

Expense type	Amount
Research and development	\$32,986
Product manufacturing and operating costs	\$44,733
Advertising and marketing	\$9,417
Staff costs	\$297,776
Administration and corporate costs	\$259,089
Total	\$644,000

As announced to the market by way of an ASX announcement on 28 June 2020, the Company has issued Second Tranche Notes aggregating to \$500,000. On 24 August 2020, the Company announced the issuance of Third Tranche Notes aggregating to a further \$500,000 to Delta Drone SA.

These Notes are unsecured debt instruments of the Company (comprising a loan from Delta Drone SA to the Company). In accordance with clause 5.1 of the Convertible Note Deeds, the Notes do not carry any rights of conversion into Shares in the Company unless and until Shareholders approve the issue of Notes in Resolution 6.

As set out in Section 7.2, the terms attaching to the Notes under the Convertible Note Deeds are identical except for the following distinctions:

- (a) the Second Tranche Notes will convert at an issue price of \$0.04 into fully-paid Shares; and
- (b) the Third Tranche Notes will convert at an issue price of \$0.034 into Shares.

Under the terms of the Convertible Note Deeds, the Notes will automatically convert into Shares in the Company upon announcing to ASX the Completion of the Proposed Transaction and the relisting.

On conversion, the Company will issue an aggregate of 27,205,882 Shares to Delta Drone SA.

The Company proposes to use all funds received from the issue of the Notes as bridging capital to enable the Company to fund the costs associated with the Proposed Transaction and Proposed Capital Raising, as well as working capital requirements, employment expenses and advisory and consultant costs prior to the Company's relisting. A detailed use of funds is set out in Section 7.4(g).

No other equity capital raisings have been conducted by the Company in the previous 6 month period.

1.18 Advantages

The Proposed Transaction and the change in nature and scale of the Company's activities are consistent with the expansion and recapitalisation objective of the Company. The Company and Delta Drone SA have embarked on the Proposed Transaction to:

- (a) improve the cash position of the Company through the Proposed Capital Raising;
- (b) combine the businesses of DDSA and the Company to achieve a profitable drone-services offering with a competitive edge in safety, compliance and cost;
- (c) minimise the ongoing operating losses within the Company's current business by merging the profitable DDSA South African operations;
- (d) increase the scale of the Company in order to become more attractive to the ASX listed company investor market;
- (e) provide enhanced liquidity in the Company's shares for current Shareholders;
- (f) leverage off the 5 year experience of the Company creating a global known brand dealing with safety and compliance;
- (g) raise sufficient capital to execute the Company's business plan to accelerate growth of the drone services business in Australia before targeting additional revenue from the Company's safety systems in the global OEM markets; and
- (h) provide the Company with access to a range of other drone related technologies held by Delta Drone SA.

The Company is also excited by the appointment of Christopher Clark who brings significant experience and skills to the Board.

1.19 Disadvantages

The Directors consider that the key disadvantages of the Proposed Transaction are as follows:

- (a) the Company will be changing the nature and scale of its activities which may not be consistent with the objectives of all Shareholders;
- (b) the Proposed Transaction will result in the issue of a significant number of Shares to Delta Drone SA and further Shares are intended to be issued as part of the Proposed Capital Raising. If completed, it will have a dilutionary effect on Shareholders' holdings;
- (c) the Company may need additional funding in the future to achieve its long-term goals and could result in further dilution at the time;
- (d) the Company is incurring significant costs in relation to the Proposed Transaction, including costs relating to lawyers, advisors and experts;
- (e) there is no guarantee of the price of the Shares as a result of the Proposed Transaction and once the Company is re-listed on the ASX;
- (f) there is no guarantee that the Company will successfully complete re-compliance or that ASX will approve the re-admission and re-quotation of the Shares of the Company upon passing all the Transaction Resolutions; and
- (g) there are additional risk factors associated with the change in nature of the Company's activities resulting from the Proposed Transaction. Some of the risk factors are summarised in Section 1.20.

In relation to the Proposed Transaction, the Independent Expert's Report contains an assessment of the advantages and disadvantages of the Proposed Transaction.

This assessment is designed to assist Shareholders in reaching their voting decision. The Independent Expert has concluded that the Proposed Transaction is not fair but reasonable to non-associated Shareholders. It is recommended that all Shareholders read the Independent Expert's Report in full which is enclosed as Annexure A of this Notice.

1.20 Risk factors

Shareholders should be aware there are risks associated with the Proposed Transaction. Based on the information available, below is a non-exhaustive list of risk factors that the Company will be subject to if the Proposed Transaction proceeds.

(a) Risks relating to the change in nature and scale of activities

(i) Re-quotation of shares on ASX

The Proposed Transaction is dependent upon the satisfaction of the Condition Precedent outlined in Section 1.5, which includes re-compliance with Chapters 1 and 2 of the ASX Listing Rules and the Shares to be issued as part of the Proposed Capital Raising.

Trading in the Company's Shares have been suspended since 12 March 2020 and will continue to be suspended until the Company satisfies the requirements of Chapters 1 and 2 of the ASX Listing Rules. If successful, issue of the Shares under the Proposed Capital Raising and relisting is anticipated to occur in accordance with the indicative timetable in Section 1.3.

There is a risk that Shareholder approval of the necessary Transaction Resolutions will not be obtained at the Meeting.

There is also a risk that the Company may be unable to meet the requirements of ASX for relisting on the ASX Official List. Should this occur, the Shares will not be able to be traded until such time as those requirements can be met, if at all. Shareholders may be prevented from trading their Shares should the Company be suspended until such time as it does re-comply with the ASX Listing Rules.

(ii) Dilution risk

The issue of Shares pursuant to the Proposed Transaction and Proposed Capital Raising will result in a dilution to the interests of the existing Shareholders in the Company.

(iii) Completion risk

The Company has agreed to acquire a 100% interest in DDSA from Delta Drone SA, the Completion of which is subject to the fulfilment of the Condition Precedent, as set out in Section 1.5. There is a risk that the Condition Precedent cannot be fulfilled, and that Completion of the Proposed Transaction cannot occur.

If the Proposed Transaction does not go ahead, the Company will incur substantial costs relating to advisors and other costs without any material benefit being achieved.

(b) Risks specific to Delta Drone South Africa's operations

(i) Relationships with customers

DDSA has a number of commercial arrangements with its key customers. A vast majority of DDSA's customers are mining companies. Rocketmine, the brand through which DDSA operates, has built strong and enduring relationships with its customers that span up to six years. A lesser number of DDSA's customers are agricultural companies, including Pioneer and Villa Crop.

Revenue for DDSA for the next 12 months is expected to be similar to CY19 based on DDSA's current relationships with mining companies across South Africa and Ghana and agricultural companies in South Africa and DDSA's other contracted job revenue.

While the Directors do not believe that there is any current threat to existing customer relationships, there is a risk that the loss of a major customer could result in a material reduction in profits for DDSA.

(ii) Doing business in Africa

The multi-jurisdictional nature of DDSA means that DDSA is exposed to risks such as labour practices, currency fluctuations, and difficulty in enforcing contracts, among many others. Management experience will help to mitigate but will not remove this risk. DDSA is subject to the risks and uncertainties associated with operating in that region, including high rates of inflation, high levels of crime and corruption.

(iii) Regulatory risk

As with any drone services offering, DDSA may be exposed to an adverse regulatory environment of a particular jurisdiction in relation to civil aviation and safety legislation. The South African regulatory environment is particularly stringent.

(iv) Brand risks

DDSA has established its trademarks and believes global branding is critical for the long-term success of the business. Negative commentary or a complaint may have a damaging impact on DDSA to reach its potential. Further, third-party claims in respect of its trading name and in respect of the Rocketmine brand may negatively impact DDSA.

(v) Third-party tools and platforms

DDSA relies on third-party tools and common libraries and may be exposed to risks associated with their use e.g. security breaches and technology improvement stagnation.

(vi) Sales and timing risks

As DDSA primarily targets large enterprise companies, the sales cycle normally takes 3-6 months, depending on the budget schedule of the customers involved.

(vii) Market conditions

Mining and agricultural industry volatility, due to commodity pricing and environmental factors, may affect the performance and revenue of the Company.

(viii) Research and development

DDSA is focused on the development and application of drone technologies and technology markets which by their nature, are a continually evolving marketplace. There is no guarantee that DDSA's research and development activities will meet the changing needs of its customer markets.

(ix) Intellectual property

DDSA's commercial success depends on its ability to maintain, establish and protect its intellectual property assets. There is a risk that each pending application will not be granted.

(x) Key personnel

The future of DDSA depends on its ability to attract and retain key management personnel. If any of these people were unable to perform their roles for any reason, DDSA may fail to meet its business goals and suffer increased costs in replacing personnel or recreating knowledge.

(xi) Regulatory compliance

DDSA is required to comply with the laws governing privacy, taxation and consumer trade practices in the jurisdictions in which it operates, as well as other laws in jurisdictions in which it plans to operate, which may change from time to time.

(xii) Reliance on third-party products

Certain DDSA products have been designed for use on hardware devices developed by third-party drone manufacturers. Where this is the case, DDSA depends on its products being able to operate on a range of systems, platforms and devices.

(c) **Risks of the Company**

(i) COVID-19 risk

The outbreak of COVID-19 is impacting global economic markets. The nature and extent of the effect of the outbreak on the performance of the Company remains unknown. The Company's Share price may be adversely affected in the short to medium term by the economic uncertainty caused by COVID-19. Further, any governmental or industry measures taken in response to COVID-19 may adversely impact the Company's operations and are likely to be beyond the control of the Company. The Directors are monitoring the situation closely and have considered the impact of COVID-19 on the Company's business and financial performance. However, the situation is continually evolving, and the consequences are therefore inevitably uncertain. In compliance with its continuous disclosure obligations, the Company will continue to update the market regarding the impact of COVID-19 on its revenue channels and any adverse impacts on the Company.

(ii) Force majeure

Events may occur within or outside the markets in which the Company operates that could impact upon the global and Australian economies, the operations of the Company and the market price of its Shares beyond the impact of COVID-19. These events include acts of terrorism, outbreaks of international hostilities,

fires, pandemics, floods, earthquakes, labor strikes, civil wars, natural disasters, outbreaks of disease and other man-made or natural events or occurrences that can have an adverse effect on the demand for the Company's services and its ability to conduct business. This risk is especially acute given the multiple jurisdictions in which the Company and DDSA will operate following the Proposed Transaction including Australia, South Africa, Ghana and Namibia.

(iii) Market conditions

Share market conditions may affect the value of the Company's Shares regardless of its operating performance. Share market conditions are affected by numerous factors, including:

- general economic outlook;
- currency fluctuations;
- the demand for, and supply of, capital; and
- interest rates and inflation rates.

These factors have been substantially impacted as a result of COVID-19. As a result, neither the Company nor the Directors warrant the future performance or any return on an investment in the Company.

(iv) Trading and liquidity in the Shares

There can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on ASX at any time and as such, Shareholders with large holdings of Shares choosing to trade out of their positions may adversely affect the market.

(v) Sales and timing

The transaction cycle in the commercial drones' market can be long and it can take between months and years to close significant transactions, whilst remaining subject to changes in regulatory environments and customers' budgets. The Company mitigates these risks by having a diverse client base to ensure that it has a mix of ongoing revenue, whilst also building its commercial position in the commercial drone industry.

(vi) Production cost

As the Company uses a small number of main suppliers, any inability of those suppliers to supply may put at risk the Company's ability to meet its commitments under contracts. The Company mitigates these risks in identifying and securing alternate sources when needed.

(vii) Regulatory risk

As with any technology product offering, the Company may be exposed to an adverse regulatory environment of a particular jurisdiction.

(viii) User experience

As the Company's business model is based on recurring revenue arising from technology users and customers, poor user experiences (often unpredictable) may result in loss of customers, adverse publicity, litigation, regulatory enquiries and reduction of use of the Company's products.

(ix) Scalability

While the Company believes that the products, software and its service architecture have been built for scalability, there are no guarantees that its products will be able to meet future demand and requirements of consumers.

(x) Information technology

Whilst the Company has employed and engaged subject-matter experts, employs experienced persons, standard security technologies and approaches, there are risks that delivery will fail to meet expectations or deadlines, that technologies become obsolete, natural disasters occur, the Company is the subject of a fraud or malicious attack or platforms are compromised resulting in a negative impact on performance.

(xi) Key management personnel

The future of the Company, in part, depends on its ability to attract and retain key management personnel. Key persons in the Company possess a considerable amount of knowledge and experience within the industries in which the Company operates. If any of these people were unable to perform their roles for any reason, the Company may fail to meet its business goals and suffer increased costs in replacing personnel or recreating knowledge.

(xii) Reliance on third-party providers

The Company depends on third-party providers to deliver its products (i.e. external systems, platforms and devices). If third-party providers raise the cost of these networks or restrict the ability of consumers to access these networks via the Company's products, this may affect financial performance.

(xiii) Brand risks

The Company has established its trademarks and believes global branding is critical for the long-term success of its business. Negative commentary or a complaint may have a damaging impact on the Company to reach its potential. Further, third-party claims to the trading names of the Company may result in further costs, impacting operating results and financial potential.

(xiv) Third-party tools and platforms

The Company relies on third-party tools and common libraries, but may be exposed to risks associated with their use including security breaches and hacker attacks. If this occurred and its products and/or software were affected, this may have a negative impact on the Company's revenue and profits.

(xv) Infringement on third-party intellectual property rights

The Company would incur significant costs in defending any third-party intellectual property allegations and may also be subject to injunctive or other orders affecting company activity. This would divert company profits and personnel efficiency.

(xvi) Future capital requirements

If adequate funds to meet the Company's future needs are not available on acceptable terms, the Company may not be able to develop its business, and this may have an adverse impact on the Company's operations.

(xvii) Exchange rate movement

The multi-jurisdictional nature of the Company means that the Company is exposed to exchange rate movements. This may impact the Company's financial position and performance.

(xviii) Regulatory compliance

The Company is required to comply with the laws governing privacy, taxation and consumer trade practices in each jurisdiction in which it operates, as well as other laws in jurisdictions in which it plans to operate, which may change from time to time. Non-compliance with such regulations, changes in the interpretation of current regulations, loss or failure to secure renewal of an accreditation or the introduction of new laws or regulations may lead to fines imposed, revocation of permits or licenses, reputational damage or other impacts that may impact the Company's financial position and performance.

(xix) Jurisdictional risks

The multi-jurisdictional nature of the Company means that it is exposed to risks such as labour practices, environmental matters, difficulty in enforcing contracts (among many others). Management experience will help to mitigate, but will not remove, this risk.

(xx) Insurance

The Company seeks to maintain appropriate policies of insurance consistent with those customarily carried by organisations in their industry sector. However, any increase in the cost of such policies could adversely affect the Company's business, financial condition and operational results, as well as uninsured loss or caps on insurance coverage.

(xxi) Contractual disputes

As the Company depends on contractual agreements with third parties that interact with the Company's target market, should a third-party contract fail (such as due to third-party insolvency, fraud and management failure), there is the potential for negative financial and brand damage for the Company.

(xxii) Foreign litigation risk

Following the Proposed Transaction, the Company will be the sole shareholder of ParaZero Technologies and DDSA. Although both ParaZero Technologies and DDSA are incorporated in Israel and South Africa respectively, liability may be placed on the Company in certain circumstances, including in circumstances of creditor fraud and insolvency where the Company is aware of such activities. Any litigation relating to Australian security and corporate law actions against directors and offices in either country would be enforceable, and any foreign judgments enforced by an Israeli or South African court would be payable in the relevant currency, which could expose the Company to exchange rate risk.

(xxiii) Economic and government risk

The future viability of the Company depends on numerous factors affecting performance of all industries including, but not limited to, general economic conditions in the relevant jurisdictions the Company operates, changes in government policies and laws, and the strength of the equity share markets in Australia and throughout the world.

(xxiv) Litigation

The Company is exposed to the risk of actual or threatened litigation or legal disputes, which if successfully pursued, may adversely impact the Company.

(xxv) Changes to laws and regulations

The Company may be affected by changes to laws and regulations (in Australia and other jurisdictions in which it will operate following the Proposed Transaction) concerning property, the environment, safety, agriculture, airspace, competition, government grants, incentive schemes and other matters. Such changes could have adverse impacts on the Company from a financial and operational perspective.

1.21 Investigating Accountant

The investigating accountant for the purposes of the Prospectus to be issued in relation to Resolution 5 is BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 AFS Licence No. 316158.

1.22 Lead Manager and Corporate Advisor

Baker Young will act as lead manager in connection with the Proposed Capital Raising. The Company will pay Baker Young:

- (a) a lead manager fee of 2% of the total funds raised under the Proposed Capital Raising, being an amount between \$70,000 (based on the Company raising \$3.5 million under the Proposed Capital Raising) and \$125,000 (based on the Company raising \$5 million under the Proposed Capital Raising); and

an advisor handling fee of 4% of the total funds raised under the Proposed Capital Raising, being an amount between \$140,000 (based on the Company raising \$3.5 million under the Proposed Capital Raising) and \$200,000 (based on the Company raising \$5 million under the Proposed Capital Raising).

The Company's corporate adviser in connection with the Proposed Transaction is Nero Capital. The Company will pay Nero Capital:

- (a) a fee of 1% of the total funds raised under the Proposed Capital Raising being an amount between \$35,000 (based on the Company raising \$3.5 million under the Proposed Capital Raising) and \$50,000 (based on the Company raising \$5 million under the Proposed Capital Raising); and
- (b) a monthly retainer of \$5,000 for the duration of Nero Capital's engagement, which commenced in April 2020 and will conclude at the earlier of completion of the Transaction or the date on which the Company terminates the engagement in its discretion by providing written notice to Nero Capital.

1.23 Forward-looking Statements

The forward-looking statements in this Explanatory Statement are based on the Company's current expectations about future events. These statements are made at the time of this Explanatory Statement. All statements other than statements of historical fact are, or may be deemed to be, forward looking statements. No representation or warranty, express or implied is made to the fairness or accuracy of the information. The document includes certain forecasts, prospects or returns and other forward-looking statements that are based on assumptions and are subject to various risks and uncertainties. Such forecasts and other forward-looking statements are not guarantees of future performance and involve known and unknown risks, which are beyond the control of the Company.

1.24 Information

All the material and accessible information available to the Directors of the Company has been included in this Notice.

2 RESOLUTION 1 – APPROVAL FOR CHANGE TO NATURE AND SCALE OF ACTIVITIES

2.1 General

The Company has entered into a Share Sale Agreement with Delta Drone SA pursuant to which the Company has agreed to acquire all the issued capital of DDSA. The Proposed Transaction, if successful will result in the Company changing the nature and scale of its activities. Details of the Proposed Transaction, the operations of DDSA, proposed changes to the structure and operations of the Company, and the impact on the capital of the Company are set out in Section 1 of this Explanatory Statement.

Resolution 1 seeks Shareholder approval under ASX Listing Rule 11.1.2 for a change in activities from a drone technology company to additionally provide drone and data collection services and other associated activities supported by drone technology.

The Proposed Transaction requires Shareholder approval under the ASX Listing Rules and therefore will not proceed if that approval is not forthcoming. In the event that Shareholder approval is not received, the suspension is expected to be lifted once ASX confirms that the Company meets the requirements to be reinstated to the Official List (including compliance with Listing Rule 12.1 and 12.2) and then after the Company has made an announcement to the market confirming the results of the EGM and that it will not be proceeding with the transaction.

If Shareholder approval is received, the Company is required to re-comply with ASX's requirements for admission and quotation, and therefore the Proposed Transaction will not proceed if those requirements are not met. ASX has an absolute discretion in deciding whether or not to re-admit the entity to the Official List and to quote its securities and therefore the Proposed Transaction will not proceed if ASX exercises that discretion. Shareholders should take account of these uncertainties in deciding how to vote at the Meeting.

2.2 ASX Listing Rule 11.1

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable. These include:

- providing to ASX information regarding the change and its effect on future potential earnings, and any information that ASX asks for;
- if ASX requires, obtaining shareholder approval and complying with any requirements of ASX in relation to the associated notice of meeting; and
- if ASX requires, meeting the requirements of Chapters 1 and 2 of the ASX Listing Rules as if the entity were applying for admission to the ASX Official List.

In the event that the Proposed Transaction completes, there will be a significant change:

- to the nature of the Company's main undertaking from a drone safety company to additionally provide drone and data collection services and other associated activities supported by drone technology; and
- the scale of the Company's activities, both operationally and financially.

2.3 Re-compliance with Chapters 1 and 2 of the ASX Listing Rules

ASX has indicated that as part of the Proposed Transaction, the Company must obtain the approval of its Shareholders for the proposed change of activities and comply with the admission requirements of Chapters 1 and 2 of the ASX Listing Rules which prescribe the conditions for official quotation.

Some of the key requirements of Chapters 1 and 2 of the ASX Listing Rules are as follows:

- a prospectus must be issued and lodged with ASIC;
- the Company must satisfy the shareholder spread requirements relating to the minimum number of Shareholders in the Company and the minimum value of the shareholdings of those Shareholders; and
- the Company must satisfy the "assets test" as set out in the ASX Listing Rules.

As part of the re-compliance, the Company will seek to carry out the Proposed Capital Raising through the issue of a Prospectus. Following completion of the Proposed Capital Raising, the Company will have sufficient funds to carry out its proposed drone technology and data collection services and other associated activities supported by drone technology for a minimum of 18 months.

ParaZero has undertaken appropriate enquiries into the assets and liabilities, financial position and performance, profits and losses, and prospects of DDSA. The current Board of ParaZero is satisfied that the Proposed Transaction is in the best interests of ParaZero. Further detail is set out in Section 2.5(m).

If this Resolution 1 is not passed the Proposed Transaction will not proceed. In that event, the Company may not have sufficient capital to achieve its current plans and may need to pursue other mechanisms to raise additional capital in order to continue as a going concern.

2.4 Regulatory Approvals and Waivers

Application for In-Principle Advice

ASX has provided in-principle advice on 17 July 2020 that based on the information provided and the facts known to ASX at that time, ASX is not aware of any reasons that would cause the Company not to have a structure and operations suitable for a listed entity for the purposes of ASX Listing Rule 1.1 Condition 1.

Waiver decision ASX Listing Rule 2.1 Condition 2

ASX has granted the Company a waiver from ASX Listing Rule 2.1 Condition 2 to the extent necessary to permit the issue of up to 125,000,000 Shares pursuant to the Proposed Capital Raising at an issue price of less than \$0.20 per share, subject to the following conditions:

- (a) the issue price of the New Shares is \$0.04 per Share; and
- (b) the terms of the waiver are disclosed to the market and, along with the terms and conditions of the Proposed Capital Raising Shares, are clearly disclosed in the notice of meeting pursuant to which the Company will seek the required approval under Listing Rule 11.1.2 for the Proposed Acquisition and in the Prospectus to be issued in respect of the Proposed Capital Raising.

Confirmation decision ASX Listing Rule 6.1

ASX confirmed on 17 July 2020 that the terms of the Performance Shares are appropriate and equitable pursuant to ASX Listing Rule 6.1.

2.5 Technical information required by ASX Guidance Note 12: Significant Changes to Activities

As required by ASX Guidance Note 12: Significant Changes to Activities, the following information is provided in relation to Resolution 1:

(a) Parties to and material terms of the transaction

A summary of the key terms of the Share Sale Agreement is set out in Section 1.5 and a summary of the Proposed Transaction generally is set out in Section 1.2.

(b) Financial effect of the Proposed Transaction on the Company

The effect of the Proposed Transaction on the financial position of the Company is set out in the pro forma balance sheet in Schedule 2.

(c) Effect on capital structure of the Company

The effect of the Proposed Transaction on the capital structure of the Company is set out in Section 1.16.

(d) Details of the issue of shares in the Company

A summary of the Consideration Shares and Performance Shares to be issued by the Company under the Share Sale Agreement is set out in Section 1.5 and a summary of the Shares proposed to be issued under the Proposed Capital Raising is set out in Section 1.13.

The Company intends that, subject to Shareholder approval, the Second Tranche Notes and Third Tranche Notes will convert into Shares. Section 1.17 sets out a summary of these Notes.

Delta Drone SA will acquire more than 20% of the voting power in the Company as a result of the Proposed Transaction. A summary of Delta Drone SA's entitlement in the Company is set out in Section 5.3.

(e) Details of any changes to the Company's Board

The changes to the Company's Board is set out in Section 1.11.

(f) Timetable for implementing the transaction

An indicative timetable for completion of the Proposed Transaction is set out in Section 1.3.

(g) Details of securities issued in the past 6 months

In the six months preceding the date of this Notice, the Company has issued:

- 500,000 Second Tranche Notes to Delta Drone SA with an issue price of \$0.04 for a total of 12,500,000 Shares upon conversion, the conversion of which is subject to Shareholder approval at this Meeting;
- 500,000 Third Tranche Notes to Delta Drone SA with a conversion price of \$0.034 for a total of 14,705,883 Shares upon conversion, the conversion of which is subject to Shareholder approval at this Meeting;

- 8,400,002 Shares upon conversion of an aggregate of \$504,000 in Convertible Notes at a conversion price of \$0.06 plus 840,002 Bonus Shares equivalent to 10% of the Note value at a conversion price of \$0.06 per share upon conversion of the Notes to Delta Drone SA as approved by Shareholders at the Company's AGM held on 28 July 2020;
- 1,666,667 Shares upon conversion of an aggregate of \$100,000 in Convertible Notes at a conversion price of \$0.06 plus 166,667 Bonus Shares equivalent to 10% of the Note value at a conversion price of \$0.06 per share upon conversion of the Notes to Capricorn Investments Partners (Nominees) Pty Ltd ACN 111 287 453 as approved by Shareholders at the Company's AGM held on 28 July 2020; and
- 666,667 Shares upon conversion of \$40,000 in Convertible Notes at a conversion price of \$0.06 plus 66,667 Bonus Shares equivalent to 10% of the Note value at a conversion price of \$0.06 per share upon conversion of the Notes to Mea Plus Maarhot Betichut Le'Rachfanim LP as approved by Shareholders at the Company's AGM held on 28 July 2020.

(h) **Summary of Delta Drone South Arica's principal activities and the jurisdictions in which it operates**

A summary of DDSA's principal activities and the jurisdictions in which it operates is set out in Section 1.4.

(i) **Description of Delta Drone South Africa's business model**

A summary of DDSA's business model is set out in Section 1.6. A summary of the key risks associated with DDSA is set out in Section 1.20.

(j) **DDSA accounts in compliance with ASX Listing Rule 1.3.5(b)**

Set out in Schedule 2 is the pro forma consolidated statement of financial position for the merged ParaZero and DDSA as at 30 June 2020, adjusted to reflect the Proposed Transaction and the Proposed Capital Raising.

Each of the Company and DDSA's 2018, 2019 and half year 2020 audited accounts can be found at <https://parazero.com/investor-relations/financial-reports/>.

(k) **Details of any regulatory approvals or waivers required for the Proposed Transaction to proceed**

As set out in Section 2.4, the Company has sought and been granted a waiver from ASX from Listing Rule 2.1 Condition 2 and has sought confirmation that the terms of the Performance Shares are appropriate and equitable pursuant to ASX Listing Rule 6.1.

(l) **Details of any fees paid or payable to any person for finding, arranging or facilitating the Proposed Transaction**

A summary of the fees paid to Baker Young and Nero Capital for facilitating the transaction is set out in Section 1.22. The Company has also agreed to issue 6,000,000 Shares to Cukierman & Co Investment House Ltd ("CIH") upon relisting in consideration for CIH having introduced the Company and DDSA to one another which has resulted in the Proposed Transaction.

There are no other fees, paid or payable, by the entity to any person for finding, arranging or facilitating the transaction. Based on the issue price of \$0.04 per share, the implied dollar value of the fee payable to CIH (which will be paid via the issuance of 6,000,000 Shares) is \$240,000.

(m) **Confirmation that the Proposed Transaction is in the interests of the Company**

The Company has made a number of enquiries and investigations into the business and assets of DDSA. Prior to entering into a letter of intent with DDSA, the Company conducted due diligence investigations into the operations of DDSA together with enquiries into its assets and liabilities. Before executing the Share Sale Agreement, the Company engaged local advisers in South Africa and Ghana to conduct financial and legal due diligence of DDSA in these jurisdictions. The Company was satisfied with these due diligence investigations. The Company and its financial advisers have reviewed DDSA's historical accounts and is satisfied that the Proposed Transaction will help to achieve a profitable "drones-as-a-service" business. The Company believes it has made appropriate enquiries into the assets and liabilities, financial position and performance, profits and losses, and prospects of DDSA for the Company's board to be satisfied that the Proposed Transaction is in the best interests of the Company and its Shareholders.

(n) **Additional confirmations**

The Company notes that the ASX and its officers take no responsibility as to the contents of this Explanatory Statement. The Company confirms that it is in compliance with its continuous disclosure obligations under ASX Listing Rule 3.1.

2.6 Conditionality

This Resolution is conditional on each other Transaction Resolution being approved.

2.7 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 1.

3 RESOLUTION 2 – CREATION OF PERFORMANCE SHARES

3.1 General

The Company proposes to create and issue 45,000,000 Performance Shares (the terms of which are described at Section 1.5) to Delta Drone SA. The Company currently has one class of shares on issue, which are ordinary shares.

On 17 July 2020, the ASX confirmed with the Company that the terms of the Performance Shares are appropriate and equitable for the purposes of Listing Rule 6.1.

3.2 Company Constitution and Part 2F.2 of the Corporations Act

Section 246C(5) of the Corporations Act provides that if a company with one class of shares issues new shares, the issue is taken to vary the rights attached to shares already issued if:

- the rights attaching to the new shares are not the same as the rights attached to shares already issued; and
- those rights are not provided for in:
 - the company's constitution (if any); or
 - a notice, document or resolution that is lodged with ASIC.

The Performance Shares fall within the scope of Part 2F.2 section 246C(5) of the Corporations Act because the rights attaching to the Performance Shares are not the same as the rights attaching to the Shares and those rights are not provided for in the Constitution or a document that is lodged with ASIC.

Accordingly, the issue is taken to vary the rights attached to the existing Shares.

Under section 246B(1) of the Corporations Act, if a company has a constitution which sets out the procedure for varying or cancelling rights attached to shares in a class of shares, those rights may be varied or cancelled only in accordance with the procedure.

Under clause 2.2 of the Constitution and subject to the Corporations Act, the ASX Listing Rules and the Constitution, the Directors may at any time issue such number of Shares either as Shares or shares of a named class or classes (being either an existing class or a new class) at the issue price that the Directors determine and with such rights or restrictions as the Directors shall in their absolute discretion determine.

Accordingly, the Company seeks approval from Shareholders for the issue of the three tranches of performance shares as new classes of shares on the terms set out in section 1.5 in accordance with section 246B(1) of the Corporations Act and clause 2.3 of the Constitution as the issue of the Performance Shares would be taken to vary the rights attaching to the Shares pursuant to section 246C(5) of the Corporations Act.

Each Performance Share, if certain milestones are achieved, will convert into one fully paid ordinary share in the Company. Full terms of the Performance Shares are set out in Schedule 1 of this Explanatory Statement.

3.3 Conditionality

This Resolution is conditional on each other Transaction Resolution being approved.

3.4 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 2.

4 RESOLUTION 3 – APPROVAL TO ISSUE PERFORMANCE SHARES TO DELTA DRONE SA

4.1 General

The Company is proposing to issue 45,000,000 Performance Shares to Delta Drone SA as deferred consideration under the Share Sale Agreement.

As is its usual practice, ASX has imposed a requirement under Listing Rule 6.1 and Guidance Note 19 *Performance Securities*, that the Company obtain Shareholder approval to issue the Performance Shares to Delta Drone SA.

Resolution 3 seeks the required Shareholder approval to the issue of the Performance Shares under and for the purposes of ASX Listing Rule 6.1 and 7.1.

4.2 Listing Rule 6.1

ASX Listing Rule 6.1 provides that the terms that apply to each class of security must, in ASX's opinion, be appropriate and equitable.

The Company has applied to ASX and received confirmation for the issuance of the Performance Shares required under ASX Listing Rule 6.1, subject to the following conditions:

- (a) the Company obtains Shareholder approval for the issue of the Performance Shares and the Notice seeking Shareholder approval includes the full terms and conditions of the Performance Shares;
- (b) the Performance Shares are not quoted;
- (c) the Performance Shares are not transferrable;
- (d) the Performance Shares do not confer any right to vote, except as required by law;
- (e) the Performance Shares do not permit the holder to participate in new issues of capital such as bonus issues and entitlement issues;
- (f) the Performance Shares do not carry an entitlement to participate in the surplus profit or asset of the Company upon winding up of the Company;
- (g) each Performance Share is converted into one fully paid Share on achievement of the relevant milestone; and
- (h) if a Performance Share is not converted into a share by the relevant expiry date, each of the Performance Shares will lapse.

In compliance with the information requirements of Guidance Note 19 *Performance Shares*, Shareholders are advised of the following information in relation to Resolution 3:

(a) Purpose

The Performance Shares are being issued in connection with the acquisition of 100% of the issued share capital in DDSA, in accordance with the Share Sale Agreement.

The structuring of the consideration to be provided to Delta Drone SA is for the benefit of Company and its Shareholders. The Company believes that the achievement of the Performance Milestones, as required for conversion, will ensure Delta Drone SA is committed to the future development and success of the Company. The Performance Shares will also minimise the risk of initial dilution of Shareholders as the consideration will be payable across three milestones, to create the desired effect of minimised dilution, whilst also creating a strong set of incentives to grow the Company's "drones-as-a-service" business.

The Company believes that the Performance Shares will ensure that Delta Drone SA is committed to the long-term and continual growth of the Company's business.

(b) Entity being acquired

Details of the entity being acquired, DDSA, are set out in Section 1.4, 1.6 and 1.7.

(c) Details of Delta Drone SA

DDSA is wholly owned by Delta Drone SA. Delta Drone SA is listed on Euronext Growth Paris.

(d) **Terms of Performance Shares**

The full terms of the Performance Shares are set out in Schedule 1.

(e) **Number of Performance Shares to be issued and why the Company considers that number to be appropriate and equitable**

The Company, through the Board's strong industry expertise and experience in the drone industry ascribed an overall value to DDSA. This value took into consideration DDSA's operations in Southern Africa, business model, position in the market, relationships with key customers and revenue stream. The Company believes that the Consideration Shares, together with the Performance Shares, represents the fair value of DDSA and its business.

The Company believes that the structure and quantum of the Performance Shares are appropriate and equitable for the following reasons:

- (i) the maximum number of Performance Conversion Shares to be issued pursuant to the Performance Shares is known at the time of the issue of the Performance Shares, being 45,000,000 Shares. As such, the maximum dilution to existing Shareholders is therefore capped;
- (ii) the timeframe for the issue of any Performance Conversion Shares, which is fixed and will be no later than three years following the issue of the Performance Shares (which will occur at completion of the Proposed Transaction);
- (iii) subject to Delta Drone SA's satisfaction of the Performance Milestones, Delta Drone SA will be issued fully paid Shares in the Company that rank equally in all respects with the Company's Shares; and
- (iv) the issue of the Performance Shares is subject to Shareholder approval under this Resolution 3.

(f) **Number of Shares to be acquired by Delta Drone SA**

Subject to Shareholder approval, the maximum number of Performance Conversion Shares to be issued is 45,000,000. Each Performance Share will convert into one Share in the Company. Therefore, subject to all of the Performance Milestones being achieved, Delta Drone SA will be issued 45,000,000 Shares in the Company. Information regarding the effect of the Performance Shares on the Company's capital structure is set out in 1.16.

(g) **Base requirements**

In accordance with ASX's stated policy and as provided for in the terms of the Performance Shares, prior to Delta Drone SA's satisfaction of the relevant Performance Milestones which will trigger an obligation to issue Shares to Delta Drone SA, the Performance Shares are not proposed to:

- (i) be transferable;
- (ii) confer any right to vote;
- (iii) confer any entitlement to a dividend;
- (iv) confer any right to a return of capital;

- (v) confer any right to participate in the surplus profit or assets of the Company on winding up; or
- (vi) confer any right to participate in new issues of securities such as bonus issues or entitlement issues.

The Company confirms that the Performance Shares are consistent with the base requirements for performance securities set out in section 9 of Guidance Note 19.

4.3 Listing Rule 7.1

ASX Listing Rule 7.1 requires a publicly listed entity to obtain shareholder approval prior to issuing securities that represent more than 15% of its securities in a 12-month period. The issue of the Performance Shares does not fall within any of the exceptions to ASX Listing Rule 7.1 and will exceed the Company's 15% placement capacity. The issue of the Performance Shares therefore requires the approval of Shareholders.

In compliance with the information requirements under ASX Listing Rule 7.3, Shareholders are advised of the following information in relation to Resolution 3:

- (a) The Performance Shares will be issued to Delta Drone SA.
- (b) Subject to Shareholder approval, the maximum number of Performance Shares to be issued is 45,000,000. Each Performance Share will convert into one Share in the Company. Therefore, subject to all of the Performance Milestones being achieved, Delta Drone SA will be issued 45,000,000 Shares in the Company. Information regarding the effect of the Performance Shares on the Company's capital structure is set out in 1.16.
- (c) The full terms of the Performance Shares are set out in Schedule 1.
- (d) the Performance Shares will be issued on or around the date specified in the indicative timetable in Section 1.3 and in any event, no Performance Shares will be issued later than 3 months after the Meeting or such longer period as permitted by ASX.
- (e) Subject to Shareholder approval, the Performance Shares are being issued as deferred consideration for the acquisition of 100% of the issued share capital in DDSA, in accordance with the Share Sale Agreement. A summary of the Share Sale Agreement is set out in Section 1.5.
- (f) **Purpose**

The Performance Shares are being issued in connection with the acquisition of 100% of the issued share capital in DDSA, in accordance with the Share Sale Agreement.

The structuring of the consideration to be provided to Delta Drone SA is for the benefit of Company and its Shareholders. The Company believes that the achievement of the Performance Milestones, as required for conversion, will ensure Delta Drone SA is committed to the future development and success of the Company. The Performance Shares will also minimise the risk of initial dilution of Shareholders as the consideration will be payable across three milestones, to create the desired effect of minimised dilution, whilst also creating a strong set of incentives to grow the Company's "drones-as-a-service" business.

- (g) The Company believes that the Performance Shares will ensure that Delta Drone SA is committed to the long-term and continual growth of the Company's business.
- (h) Sections 1 and 2 set out the relevant information in relation to the Proposed Transaction more broadly.

4.4 Shareholder approval

If Resolution 3 is passed, the Company will be able to proceed with the issue of the Performance Shares to Delta Drone SA, subject to the Performance Milestones being achieved.

If Resolution 3 is not passed, the Company will not be able to proceed with the issue of the Performance Shares and the Proposed Transaction will not proceed.

4.5 Conditionality

This Resolution is conditional on each other Transaction Resolution being approved.

4.6 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 3.

5 RESOLUTION 4 – ISSUE OF SHARES IN CONNECTION WITH THE PROPOSED TRANSACTION, PROPOSED CAPITAL RAISING AND CONVERSION SHARES TO DELTA DRONE SA

5.1 General

The Proposed Transaction is proposed to be completed via the issue of 203,512,750 Consideration Shares and 45,000,000 Performance Shares to Delta Drone SA. If the issue is not approved, then the Proposed Transaction will not proceed, and no Consideration Shares or Performance Shares will be issued. A summary of the Share Sale Agreement is set out in Section 1.5.

In connection with the Proposed Transaction, the Company has issued the Second Tranche Notes and the Third Tranche Notes to Delta Drone SA. A summary of the Second Tranche and Third Tranche Convertible Note Deeds is set out in Section 1.17.

Delta Drone SA has expressed an intention to invest up to \$500,000 into the Proposed Capital Raising.

Resolution 4 seeks Shareholder approval for the purpose of item 7 of section 611 of the Corporations Act to allow the Company to issue to Delta Drone SA:

- (a) 203,512,750 Consideration Shares;
 - (b) 45,000,000 Performance Conversion Shares;
 - (c) 27,205,882 Conversion Shares; and
 - (d) 12,500,000 Shares under the Proposed Capital Raising,
- (together, the “**Proposed Issues**”).

The Proposed Issues, when aggregated with the 9,240,004 Shares already held by Delta Drone SA, will result in Delta Drone increasing its voting power in the Company from 6.6% up to a maximum of 64.2% (assuming the Minimum Subscription under the Proposed Capital Raising).

5.2 Section 606 of the Corporations Act – Statutory Prohibition

Section 606(1) of the Corporations Act prohibits a person acquiring a Relevant Interest in the issued voting shares in a company if, as a result of the acquisition, that person's (or another person's) Voting Power in the company increases from less than 20% to more than 20% or from a starting point that is above 20% to below 90%. The Voting Power of a person in a company is determined under section 610 of the Corporations Act. The calculation of a person's Voting Power in a company involves determining the voting shares in the company in which the person and its associates have a Relevant Interest.

- (a) For the purposes of determining voting power under the Corporations Act, a person ("**Second Person**") is an "associate" of the other person ("**First Person**") if (pursuant to section 12(2) of the Corporations Act) the First Person is a body corporate and the Second Person is:
 - a body corporate that the First Person controls;
 - a body corporate that controls the First Person; and
 - a body corporate that is controlled by an entity that controls the person;
- (b) the Second Person has entered or proposes to enter into a relevant agreement with the First Person for the purpose of controlling or influencing the composition of the Company's Board or the conduct of the Company's affairs; or
- (c) the Second Person is a person with whom the first person is acting or proposes to act, in concert in relation to the Company's affairs.

No Associates of Delta Drone SA have or will have a Relevant Interest in the Company.

Section 608(1) of the Corporations Act provides that a person has a Relevant Interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or exercise control over the disposal of, the securities.

It is immaterial whether the power or control is direct or indirect, and it does not matter how remote the Relevant Interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

5.3 Delta Drone SA Entitlements in the Company

As at the date of this announcement, Delta Drone SA holds 9,240,004 Shares in the Company, reflecting a voting power of approximately 6.6%. Following the issue of the Consideration Shares, Performance Conversion Shares and the Conversion Shares, and assuming Delta Drone invests up to \$500,000 in the Proposed Capital Raising, the approximate maximum voting power of Delta Drone SA in the Company will be as follows:

Description	Number of Shares	Percentage holding (assuming \$3.5m raising)	Percentage holding (assuming \$5m raising)
Existing holding	9,240,004	2.0%	1.8%
Conversion Shares	27,205,882	5.9%	5.4%
Consideration Shares	203,512,750	43.9%	40.6%
Performance Conversion Shares ¹²	45,000,000	9.7%	9.0%
Investment in Proposed Capital Raising	12,500,000	2.7%	2.5%
Total	297,458,636	64.2%	59.4%

5.4 Item 7 of section 611 of the Corporations Act

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition in section 606 of the Corporations Act where the Shareholders of the Company approve an acquisition of shares by virtue of an allotment of shares or an acquisition at a meeting at which no votes are cast by parties involved in the proposed acquisition. Accordingly, Resolution 4 seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act.

5.5 Technical Information Required under the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74: Acquisitions approved by members for the purposes of obtaining approval under item 7 of section 611 of the Corporations Act.

(a) **Identity of the acquirers and their associates**

The identity of the acquirer (Delta Drone SA) is set out in Section 1.2 of this Explanatory Statement.

(b) **Effect on the acquirers' Voting Power**

The relevant interest of the acquirer is set out in Section 5.3 of this Explanatory Statement.

(c) **Reasons for the Proposed Issues**

¹² Assumes all performance milestones are met and all Performance Shares convert into Shares.

As detailed in Section 1.5 of this Explanatory Statement, the Consideration Shares and the Performance Shares will be issued in consideration for the Company's acquisition of 100% of the issued capital in DDSA.

As detailed in Section 1.17 of this Explanatory Statement, the Conversion Shares will be issued to Delta Drone SA in accordance with the Second Tranche and Third Tranche Convertible Note Deeds.

As detailed in in Section 1.13 of this Explanatory Statement, Delta Drone SA has expressed an intention to invest up to \$500,000 in the Proposed Capital Raising.

(d) Date of Proposed Issues

The Consideration Shares will be issued upon completion of the Proposed Transaction, which is set out in the indicative timetable in Section 1.3 in this Explanatory Statement.

The Performance Conversion Shares are to be issued to Delta Drone SA in three tranches upon the satisfaction of the Performance Milestones as described in Section 1.5.

The Conversion Shares are to be issued to Delta Drone SA upon conversion in accordance with the Second Tranche and Third Tranche Convertible Note Deeds as described in Section 1.17.

The Shares issued to Delta Drone SA under the Proposed Capital Raising will be issued upon completion of the Proposed Capital Raising.

(e) Material terms of the Proposed Issues

Details of the Proposed Transaction are set out in Section 1.2 and a summary of the material terms of the Share Sale Agreement is set out in Section 1.5.

Details of the Second Tranche and Third Tranche Convertible Notes are set out in Section 1.17 and a summary of the respective Convertible Note Deeds is set out in Section 7.2.

Details of the Proposed Capital Raising is set out in Section 1.13.

(f) Other relevant agreements

Other than the Share Sale Agreement, the Second Tranche and Third Tranche Convertible Note Deeds and the Loan Agreement, no other relevant agreements exist between the Company and Delta Drone SA, or any of its Associates.

(g) Delta Drone SA intentions regarding the future of the Company

Other than as disclosed elsewhere in the Explanatory Statement, Delta Drone SA has advised that it:

- (i) does not currently intend to make any significant changes to the business of the Company;
- (ii) does not currently intend to inject further capital into the Company;
- (iii) does not currently intend to change the employment arrangements of the Company;
- (iv) does not propose to transfer any assets between the Company and DDSA, or its associates;

- (v) does not currently intend to otherwise redeploy the fixed assets of the Company; and
 - (vi) does not currently intend to change the financial or dividend distribution policies of the Company.
- (h) **Changes to the Board**
- As set out in Section 1.11, pursuant to the Proposed Transaction, it is proposed that Christopher Clark will join the Board on completion of the Proposed Transaction. Details of Christopher Clark's qualifications and experience are set out in Section 1.11. All of the current directors will remain on the Board.
- (i) **Directors' interests in the Proposed Issues**
- The Directors do not have any material personal interests in DDSA or the outcome of Resolution 4. The Directors recommend that Shareholders vote in favour of Resolution 4. The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interest of the Company to pass Resolution 4.
- (j) **Capital Structure**
- A table showing the Company's current capital structure resulting from the Proposed Issues is set out in Section 1.16.

5.6 Independent Expert's Report

Under ASIC regulatory guidance, the Company is required to engage an independent expert to review the Proposed Transaction as per RG 74.31 and to provide Shareholders with an opinion as to whether or not the Proposed Transaction is "fair and reasonable" to members for the purposes of approval under item 7 section 611 of the Corporations Act.

The Independent Expert's Report prepared by the Independent Expert is attached as Annexure A of this Explanatory Statement and assesses whether the Proposed Transaction is fair and reasonable to non-associated Shareholders.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the Proposed Transaction under the Share Sale Agreement. This assessment is designed to assist Shareholders in reaching their voting decision.

The Independent Expert concludes that the Proposed Transaction as contemplated under Resolution 4 is not fair but reasonable to non-associated Shareholders. It is recommended that all Shareholders read the Independent Expert's Report in full which is enclosed as Annexure A of this Notice.

5.7 Section 208 of the Corporations Act

Section 208(1)(a) of the Corporations Act prohibits a company from giving a financial benefit (including an issue of securities) to a related party of the company without the approval of shareholders by a resolution passed at a general meeting at which no votes are cast in relation to the resolution in respect of any shares held by the related party or by an associate of the related party.

Delta Drone SA will become a related party of the Company for the purposes of section 228 of the Corporations Act as Delta Drone SA will have practical control of the Company from Completion of the Proposed Transaction. Accordingly, the

Company is seeking Shareholder approval to Resolution 4 for the purposes of section 208 of the Corporations Act to permit the Proposed Issues.

Section 210 of the Corporations Act provides an exception to obtaining shareholder approval in accordance with section 208 of the Corporations Act. It provides that member approval is not needed to give a financial benefit on terms that would be reasonable in the circumstances if the entity and the related party were dealing at arm's length, meaning it was on terms no less favourable to the related party. While the Company has concluded that the Proposed Transaction is on an arm's length basis, as a matter of good corporate governance the Company is nevertheless seeking Shareholder approval.

5.8 Technical Information Required by Section 219 of the Corporations Act

As required by section 219 of the Corporations Act, the following information is provided in relation to Resolution 4:

(a) Related parties to whom the financial benefit is given

The identity of the related party to whom the financial benefit is to be given (Delta Drone SA) is set out in Section 1 of this Explanatory Statement.

(b) Nature of the financial benefit

The nature of the financial benefit is described at Section 1.5 and Section 1.17.

(c) Valuation of the financial benefits

The Company is offering its Shares to the public under the Proposed Capital Raising at an issue price of \$0.04 each, which implies that each Consideration Share will initially have a market value of \$0.04. Based on this Share price, the indicative initial value of the financial benefit to be given to Delta Drone SA for the Consideration Shares is \$8,140,510.

As the Performance Conversion Shares are subject to various Performance Milestones referred to in Section 5.1, it is not possible to determine their value for the date on which they will be issued. However, based on the initial market value of Shares of \$0.04 and assuming that all Performance Milestones are met, the indicative initial value of the financial benefit for 45,000,000 Performance Conversion Shares to be given to Delta Drone SA is \$1,800,000.

Based on the initial market value of the Shares of \$0.04, the indicative initial value of the financial benefit for the 27,205,882 Conversion Shares is \$1,088,235.28.

As detailed in Section 1.13, Delta Drone SA has expressed an intention to invest up to a further \$500,000 in the Proposed Capital Raising.

(d) Reason for the financial benefit

As detailed in Section 1.5, the Consideration Shares and the Performance Conversion Shares will be issued in consideration for the Company's acquisition of 100% of the issued capital in DDSA.

As detailed in Section 1.17 the Conversion Shares are being issued in accordance with the Second Tranche and Third Tranche Note Deeds to enable the Company to fund the costs associated with the Proposed Transaction.

(e) **Current remuneration and security interests**

When appointed as a Director at completion of the Proposed Transaction, Christopher Clark will receive remuneration of \$100,000 per annum plus superannuation.

At completion of the Proposed Transaction, Delta Drone SA will hold no more than 297,458,636 Shares, with a maximum Voting Power of 64.2% (based on the Minimum Subscription).

At the date of this Notice, Delta Drone SA holds 9,240,004 Shares and holds 6 Notes which are convertible into the Conversion Shares on completion of the Proposed Transaction and Proposed Capital Raising.

(f) **Terms of the securities**

The Shares that may be issued to Delta Drone SA pursuant to Resolution 4 will rank equally in all respects with existing Shares on issue. The terms of the Performance Shares are set out in Schedule 1.

(g) **Dilution**

If all Shares are issued pursuant to the Resolutions in this Notice and no other Shares are issued by the Company, then the Shares to be issued under Resolution 4 would dilute Shareholders by approximately 64%.

(h) **Directors' interests**

The Directors do not have any material personal interests in DDSA or the outcome of Resolution 4.

(i) **Other information**

Other than as set out in this Explanatory Statement, there is no further information that is known to the Company or any of the Directors which Shareholders would reasonably require in order to decide whether or not it is in the Company's best interests to pass Resolution 4.

5.9 Conditionality

This Resolution is conditional on each other Transaction Resolution being approved.

5.10 ASX Listing Rule 10.11

Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or related party is, in ASX's opinion such that approval should be obtained, unless an exception to ASX Listing Rule 10.12 applies.

Pursuant to exception 6 under ASX Listing Rule 10.12, approval pursuant to ASX Listing Rule 10.2 is not required for the Proposed Issues (other than in respect of the Performance Shares which are being approved separately under Resolution 3) as approval is being obtained for the purposes of item 7 of section 611 of the Corporations Act. Accordingly, as a result of exception 6 of ASX Listing Rule 10.12, the Company is not required to obtain approval to ASX Listing Rule 10.11 for the Proposed Issue. .

5.11 Listing Rule 7.1

A summary of ASX Listing Rule 7.1 is set out in Section 6.2. Pursuant to exception 8 of ASX Listing Rule 7.2, approval pursuant to ASX Listing Rule 7.1 is not required for the Proposed Issues the subject of Resolution 4 (other than in respect of the

Performance Shares which are being approved separately under Resolution 3) as approval is being obtained for the purposes of item 7 of section 611 of the Corporations Act, . Accordingly, as a result of ASX Listing Rule 7.2 exception 8, the Company is not required to obtain approval to ASX Listing Rule 7.1 for the Proposed Issue (other than in respect of the Performance Shares which are being approved separately under Resolution 3). Accordingly, the issue of the Consideration Shares, Performance Conversion Shares and Conversion Shares will not be included in the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

5.12 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 4.

6 RESOLUTION 5 – ISSUE OF SHARES UNDER THE PROPOSED CAPITAL RAISING

6.1 General

Conditional upon the approval of the Proposed Transaction by Shareholders, the Company will raise a minimum of \$3.5 million and a maximum of \$5 million and apply for re-admission to the Official List.

The effect of Resolution 5 is to allow the Company to issue the Proposed Capital Raising Shares within the period of 3 months following the Meeting, without using the Company's 15% placement capacity, as explained in Section 6.2(d).

The Company has engaged Baker Young as the Lead Manager to manage the Proposed Capital Raising. A summary of the fees paid to Baker Young for facilitating the transaction is set out in Section 1.22.

6.2 Applicable ASX Listing Rules

(a) ASX Listing Rule 11.1

As described in Section 2, ASX has exercised its discretion pursuant to ASX Listing Rule 11.1.3 to require the Company to meet the requirements in Chapters 1 and 2 of the ASX Listing Rules as if it were applying for re-admission.

(b) ASX Listing Rule 1.1 Condition 3

ASX Listing Rule 1.1 Condition 3 requires a company to issue and lodge a prospectus with ASIC. The Prospectus will be issued by the Company in order to re-comply with ASX's admission and quotation requirements in accordance with Chapter 1 of the Listing Rules

(c) ASX Listing Rule 2.1

Listing Rule 2.1 sets out the conditions which must be met for quotation of the main class of securities of an entity seeking to be admitted to the Official List. Condition 2 requires that the issue or sale price of all the securities for which the entity seeks quotation must be at least 20 cents. The Company has sought a waiver from ASX Listing Rule 2.1 which was granted to the Company on 7 October 2020.

(d) ASX Listing Rule 7.1

ASX Listing Rule 7.1 requires a publicly listed entity to obtain shareholder approval prior to issuing securities that represent more than 15% of its securities in a 12-month period. The Proposed Capital Raising does not fall

within any of the exceptions to ASX Listing Rule 7.1 and will exceed the Company's 15% placement capacity. The Proposed Capital Raising therefore requires the approval of Shareholders.

6.3 Technical Information Required by ASX Listing Rule 7.1

ASX Listing Rule 7.3 requires a publicly listed entity issuing securities pursuant to Listing Rule 7.1 to include certain information in that entity's notice of meeting in connection with the meeting at which shareholder approval under ASX Listing Rule 7.3 is sought.

In accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Proposed Capital Raising:

- (a) the Shares will be issued to persons who apply for Shares under the Proposed Capital Raising. These persons will not be related parties of the Company. Subject to foreign investor restrictions, the offer will be open to members of the general public as determined by the Minimum Subscription and Maximum Subscription amounts (as set out in the Prospectus). As set out in Section 1.13 Delta Drone SA has expressed an intention to invest \$500,000 under the Proposed Capital Raising;
- (b) the maximum number of Shares to be issued is 125,000,000 Shares;
- (c) the issue price will be \$0.04 per Share;
- (d) the Shares will be issued on or around the date specified in the indicative timetable in Section 1.3 and in any event, no Shares will be issued later than 3 months after the Meeting or such longer period as permitted by ASX;
- (e) the funds raised under the Proposed Capital Raising will be used in accordance with the information set out in Section 1.13; and
- (f) the Shares will be fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing Shares.

6.4 Conditionality

This Resolution is conditional on each other Transaction Resolution being approved.

6.5 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 5.

7 RESOLUTION 6 – APPROVAL OF CONVERTIBLE NOTES BECOMING CONVERTIBLE

7.1 General

On Tuesday 28 July 2020 at the Company's AGM, Shareholders approved the issue of the First Tranche of convertible securities to the First Tranche convertible noteholders, including to Delta Drone SA.

The Company has issued the Second Tranche Notes and Third Tranche Notes to Delta Drone SA.

Resolution 6 seeks Shareholder approval in relation to the conversion of the Second Tranche Notes and Third Tranche Notes into Shares in accordance with ASX Listing Rule 7.1.

ASX Listing Rule 7.1 requires a publicly listed entity to obtain shareholder approval prior to issuing securities that represent more than 15% of its securities in a 12-month

period. The conversion of the Notes does not fall within any of the exceptions to ASX Listing Rule 7.1 and will exceed the Company's 15% placement capacity. Resolution 6 seeks approval for the Second Tranche Notes and Third Tranche Notes to convert into Shares in accordance with their terms and pursuant to ASX Listing Rule 7.1.

The Company has issued:

- (a) the Second Tranche Notes under the Second Tranche Convertible Note Deed; and
- (b) the Third Tranche Notes under the Third Tranche Convertible Note Deed, (together, the "**Convertible Note Deeds**").

The Notes are unsecured debt instruments of the Company (comprising of a loan from Delta Drone SA to the Company). The Notes do not carry any rights of conversion into Shares unless and until receipt of Shareholder approval of this Resolution 6. Following the receipt of Shareholder approval, the Notes are convertible into Shares in the Company in accordance with their terms.

Subject to receipt of Shareholder approval under this Resolution 6, each Note shall automatically be converted into Shares immediately upon the Company announcing to ASX the Completion of the Proposed Transaction and the Company's relisting process on or before the Redemption Date. Subject to receipt of Shareholder approval under this Resolution 6, where Completion of the Proposed Transaction does not occur on or before the Redemption Date (being 6 months after the date of the respective Convertible Note Deed), Delta Drone SA may elect between the conversion or redemption of such Notes.

On conversion, the Shares issued to the Delta Drone SA will be fully paid ordinary shares and rank equally with other existing Shares in the Company. In the event that Shareholders do not approve the Notes becoming convertible or Delta Drone elects to redeem the Notes, the Company intends to fund the redemption of the notes by way of a combination of:

- (a) its existing cash reserves;
- (b) a capital raising utilising its existing placement capacity under ASX Listing Rules 7.1 and 7.1A; and
- (c) further debt funding.

7.2 Key Terms

The Second Tranche Notes and Third Tranche Notes are issued on the terms outlined below.

Term	Summary
Face Value	The face value of each Note will be equal to the Subscription Sum for that Note.
Second Tranche Notes Subscription Sum	Note 1 – \$200,000 Note 2 – \$200,000 Note 3 – \$100,000

Term	Summary
Third Tranche Notes Subscription Sum	Note 1 – \$100,000 Note 2 – \$200,000 Note 3 – \$200,000
Interest	Non-interest bearing.
Security	The Notes are unsecured debt obligations of the Company.
Voting Rights	The Notes shall not provide any voting rights in the Company.
Redemption Date	The Second Tranche Notes have a Redemption Date of 28 December 2020. The Third Tranche Notes have a Redemption Date of 23 February 2021.
Condition Precedent to Conversion	All necessary Shareholder approvals being received for the issue of the Conversion Shares for the purposes of ASX Listing Rule 7.1 and for all other purposes.
Conversion	Subject to Shareholder approval having been obtained, each Note shall automatically be converted into Shares immediately upon the Company announcing to ASX the Completion of the Proposed Transaction on or before the Redemption Date. Where Completion of the Proposed Transaction does not occur prior to the relevant Redemption Date, Delta Drone SA may elect between the conversion (subject to obtaining Shareholder approval) or redemption of such Notes.
Allotment Date	The Company shall allot and issue the Shares to which Delta Drone SA is entitled upon conversion of the Note not more than 3 Business Days after the date the Notes are converted (unless otherwise agreed to by the Parties).
Issue Price	Second Tranche Notes - \$0.04 Third Tranche Notes - \$0.034
Redemption	Where the Notes have not been converted, the Notes must be redeemed on the Redemption Date.

Term	Summary
Events of Default	(a) The Company fails to pay within five Business Days of its due date any amount payable under the relevant Convertible Note Deed. (b) Other standard events of default for an agreement of this nature including misrepresentation, breach of the Company's undertaking, delisting and insolvency.
Effect of Default	If an Event of Default occurs, the Delta Drone SA may then or at any time subsequently by notice to the Company: (a) declare all money owing under the relevant Convertible Note Deeds to be immediately due and payable, and the Company must immediately pay that money (including any accrued interest and fees) and cash cover for the full amount of any money contingently owing under the relevant Convertible Note Deeds; and/or (b) cancel its obligations (if any) under the relevant Convertible Note Deeds.

7.3 Information Required Under ASX Listing Rule 7.1

Broadly speaking, and subject to a number of exceptions, ASX Listing Rule 7.1 limits the amount of securities that a listed company can issue without the approval of its shareholder over any 12 month period to 15% of the fully paid ordinary shares it had on issue at the start of that period.

The Conversion Shares to be issued to Delta Drone SA on conversion of the Notes exceeds the Company's 15% placement capacity.

If Resolution 6 is passed:

- (a) the Notes will become convertible; and
- (b) the Company will issue the Conversion Shares on conversion of the Notes in accordance with the terms of the Notes.

In addition, the issue of the Conversion Shares on conversion of the Notes will be excluded from the calculation of the number of securities that the Company can issue without shareholder approval under ASX Listing Rule 7.1

If Resolution 6 is not passed, the Notes will not become convertible in accordance with their terms and will remain as unsecured debt obligations of the Company. In addition, the Notes will not be able to be converted meaning that they must be redeemed on the Redemption Date in accordance with the terms of the Note.

7.4 Information Required by ASX Listing Rule 7.3

In compliance with the information requirements of ASX Listing Rule 7.3, Shareholders are advised of the following information in relation to Resolution 6:

- (a) **Noteholders**

Delta Drone SA is the registered holder of the Second Tranche Notes and the Third Tranche Notes.

(b) **Purpose of issue**

The Second Tranche Notes and Third Tranche Notes were issued for the purposes of bridging capital to enable the Company to fund the costs associated with the Proposed Transaction and Proposed Capital Raising, as well as working capital requirements, employment expenses and advisory and consultant costs prior to the Company's relisting.

(c) **Number and class of Conversion Shares**

The Company has issued 1,000,000 Notes to Delta Drone SA with a face value of \$1.00. Provided that Shareholders approve Resolution 6, the Second Tranche Notes and Third Tranche Notes will be convertible into Shares at an issue price of \$0.04 and \$0.034 respectively. The number of Shares to be issued is equal to the Subscription Sum (as detailed in Section 6.2) divided by the conversion price. The Company will issue 27,205,882 Shares to Delta Drone SA upon conversion of all the Second Tranche and Third Tranche Notes the subject of this Resolution.

(d) **Material terms**

A summary of the material terms of the Notes is set out in Section 7.2.

(e) **Date by which the entity will issue the securities**

The Company issued the Notes on the following dates:

- (i) Second Tranche Notes on 28 June 2020; and
- (ii) Third Tranche Notes on 23 August 2020.

(f) **Issue price**

As indicated in the table above, upon conversion, Shares will be issued as follows:

- (i) in relation to the Second Tranche Notes, at an issue price of \$0.04; and
- (ii) in relation to Third Tranche Notes, at an issue price of \$0.034.

(g) **Intended use of funds raised**

The detailed application of the funds raised from the Second Tranche Notes (being \$500,000 in aggregate) and the Third Tranche Notes (being \$500,000 in aggregate) is as follows:

USD	Jun-20	Jul-20	Aug-20	Sep-20
Total Revenue	39,808	131,078	104,575	61,673
Total Cost of Sales	-33,056	-68,114	-8,788	-78,310
Research and development	-753	-78,220	-52,988	-43,498
Sales and marketing	-2,046	-22,290	-22,583	-30,920
General & Administration Costs	-58,487	-44,489	-42,069	-40,997
Finance & Capex	12,164	-23,074	34,980	-18,490
Australia	-13,532	-50,543	-99,657	-109,729
Total Burn (Including Cost of Sales)	-95,710	-286,730	-191,105	-321,943
Second Tranche Convertible Notes	136,890	143,803	73,584	
Third Tranche Convertible Notes			73,584	284,603
Open Cash Balance	42,575	123,563	111,713	172,352
Cash balance at end of period	123,563	111,713	172,352	196,685

	Jun-20	Jul-20	Aug-20	Sep-20
AUD/USD	0.6844	0.7190	0.7358	0.7115

Notes:

1. The amounts listed for September 2020 are estimates only as these amounts remain subject to finalisation by the Company. The Company provides a quarterly report of its cash flow and discloses this to the market in an Appendix 4C. The September amounts will therefore be confirmed in the Company's next Appendix 4C to be released to the market prior to the end of October 2020, which is well in advance of the EGM.
2. In-flow of funds from the Second Tranche Notes was received on 12 June 2020 (\$200,000), 14 July 2020 (\$200,000) and 20 August 2020 (\$100,000).
3. In-flow of funds from the Third Tranche Notes was received on 20 August 2020 (\$100,000), 15 September 2020 (\$200,000) and 28 September 2020 (\$200,000).

(h) **Terms of agreement**

The Notes are issued under the Convertible Note Deeds, the terms of which are explained in Section 7.2.

7.5 Directors recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 6 to give effect to the Conversion.

8 RESOLUTION 7 – APPOINTMENT OF PROPOSED DIRECTOR – CHRISTOPHER CLARK**8.1 General**

As part of the Proposed Transaction, it is proposed that Mr Christopher Clark will be appointed as a Director of the Company.

Mr Clark is to be elected as an Executive Directors of the Company. If approved, his appointment will commence immediately on Completion of the Proposed Transaction.

Shareholder approval for the election of Mr Clark is being sought for the purposes of clause 14.3 of the Company's Constitution.

The profile of Mr Clark is provided in Section 1.11 of the Explanatory Statement.

To be eligible for election to office of Director, clause 14.3 of the Company's Constitution requires Mr Clark to provide written notice giving consent to the nomination and signifying his candidature for office at least 30 Business Days before the general meeting. Such notice is set out in Schedule 3.

The Company confirms that it has conducted appropriate checks on Mr Clark's background and experience and is not aware of any material adverse information relating to Mr Clark.

8.2 Conditionality

This Resolution is conditional on each other Transaction Resolution being approved.

8.3 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 7.

9 RESOLUTION 8 – CHANGE OF NAME**9.1 General**

Section 157(1)(a) of the Corporations Act provides that a company may change its name if the company passes a special resolution adopting a new name.

Resolution 8 is a special resolution that seeks Shareholder approval to change the name of the Company from ParaZero Limited to Delta Drone International Limited. This change is consistent with the new focus of the Company following implementation of the Proposed Transaction and more accurately reflects the proposed future operations of the Company.

If Resolution 8 is passed, the change of name will take effect when ASIC alters the details of the Company's registration. The change will not affect the legal status of the Company.

There will be also be change to the Company's ASX listing code from "PRZ" to "DLT" which will be announced to the market when the change of name takes effect.

9.2 Conditionality

This Resolution 8 is conditional on each other Transaction Resolution being approved.

9.3 Directors Recommendation

The Board unanimously recommends that the Shareholders vote in favour of Resolution 8.

GLOSSARY

\$ means Australian dollars.

AGM means the Company's Annual General Meeting held on 28 July 2020.

Allotment Date means the date that Shares are allotted in respect of a conversion of Notes being not more than 3 Business Days after the relevant conversion date (unless otherwise agreed to by the Company and Delta Drone SA).

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term under section 9 of the Corporations Act.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Auditor means BDO Audit (WA) Pty Ltd

Automic means Automic Registry Services.

BEE Act means the Black Economic Empowerment Act of South Africa.

Board means the board of Directors of the Company.

Business Day means a day on which Banks are open for general banking business in Melbourne, Victoria, Australia, excluding Saturdays, Sundays and public holidays in that state.

CIH means Cukierman & Co Investment House Ltd.

Chair means the chairperson of the Meeting.

Class A Performance Shares means the Class A Performance Shares to be issued to Delta Drone SA on the terms set out in Part A of Schedule 1.

Class B Performance Shares means the Class B Performance Shares to be issued to Delta Drone SA on the terms set out in Part B of Schedule 1.

Class C Performance Shares means the Class C Performance Shares to be issued to Delta Drone SA on the terms set out in Part C of Schedule 1.

Condition Precedent has the meaning given to that term in Section 1.5.

Company means ParaZero Limited (ACN 618 678 701), proposed to be renamed Delta Drone International Limited.

Completion or Completion of the Proposed Transaction means completion of the Proposed Transaction.

Consideration Shares means the 203,512,750 Shares issued to Delta Drone SA under the Share Sale Agreement as partial consideration for the Company acquiring 100% of the issued share capital in DDSA.

Constitution means the Company's constitution.

Conversion Shares means the Shares issued to Delta Drone SA upon conversion of the Notes on the terms set out in Section 6.

Convertible Note Deed means each of the Second Tranche Convertible Note Deed and the Third Tranche Convertible Note Deed (as the context requires) and collectively the **Convertible Note Deeds**.

Conversion Shares means the 27,205,882 Shares to be issued to Delta Drone SA upon the conversion of the Second Tranche Notes and the Third Tranche Notes.

Corporations Act means the *Corporations Act 2001* (Cth).

COVID-19 means the outbreak of the coronavirus disease.

Delta Drone South Africa or DDSA means Delta Drone South Africa (Pty) Ltd, a private company incorporated in accordance with the laws of the Republic of South Africa under registration number 2016/349398/07.

Delta Drone SA means Delta Drone SA, a public company incorporated in accordance with the laws of the French Republic under registration number 530 740 562 R.C.S Lyon.

Director means a director of the Company.

Drone Safety and Legal means Drone Safety and Legal (Pty) Ltd registration number 2013/200608/07.

Explanatory Statement means the explanatory statement accompanying the Notice.

First Tranche Notes means the 504,000 notes issued to Delta Drone SA.

First Performance Milestone has the meaning given to that term in Section 1.5 of this Notice.

Independent Expert means RSM Corporate Australia Pty Ltd ABN 82 050 508 024.

Independent Expert's Report means the Independent Expert's Report prepared by the Independent Expert which is attached as Annexure A.

Lead Manager means Baker Young Limited ACN 006 690 320 AFS Licence No. 246735 and **Baker Young** has the same meaning.

Loan Agreement means the loan agreement entered into between the Company and Delta Drone SA dated 7 October 2020, as described in Section 1.15.

Maximum Subscription means \$5 million to be raised under the Proposed Capital Raising.

Meeting means the extraordinary general meeting convened by this Notice to be held on 3 December 2020, commencing at 4:00 pm.

Minimum Subscription means \$3.5 million to be raised under the Proposed Capital Raising.

Nero Capital means Nero Capital Pty Ltd ACN 162 544 005.

Notes and **Convertible Notes** means either or both of the Second Tranche Notes and the Third Tranche Notes.

Notice means this notice of meeting including the Explanatory Statement and the Proxy Form.

Official List means the official list of ASX.

Options means an option in the Company which is convertible into Shares.

Performance Milestones means the performance milestones attaching to each of the Performance Shares as set out in Section 3.

Performance Shares has the meaning given to that term in Section 1.5.

Performance Conversion Shares means the proposed issue of 45,000,000 Shares to Delta Drone SA upon the satisfaction of the Performance Milestones.

Proposed Transaction means the proposed acquisition of 100% of the issued capital in DDSA pursuant to the Share Sale Agreement, as announced by the Company on 14 October 2020.

Proposed Capital Raising means the capital raising to be undertaken by the Company as contemplated by Resolution 5.

Proposed Director means Christopher Clark.

Prospectus means the Prospectus to be issued by the Company for the purposes of, among other things, undertaking the Proposed Capital Raising and re-complying with Chapters 1 and 2 of the ASX Listing Rules.

Proxy Form means the proxy form accompanying the Notice.

Redemption Date means the date 6 months from the execution of each Convertible Note Deed, being 28 December 2020 for the Second Tranche Notes and 23 February 2021 for the Third Tranche Notes.

Relevant Interest has the meaning given to that term in the Corporations Act.

Resolution means the resolutions contained in this Notice.

Rocketmine Ghana means Rocketmine Ghana registration number CS0 15 20 2017

Rocketmine South Africa means Rocketmine (Pty) Ltd registration number 2008/0083494/07.

Second Performance Milestone has the meaning given to that term in Section 1.5 of this Notice.

Second Tranche Convertible Note Deed means the deed entered into between the Company and Delta Drone SA in relation to the issue of the Second Tranche Notes.

Second Tranche Notes means the Notes agreed to be issued to Delta Drone SA on 28 June 2020 and on the terms set out in Section 7.2.

Section means a section of this Notice.

Share or **Shares** means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of one or more Share

Share Sale Agreement means the share sale agreement to be entered into between the Company, Delta Drone SA and DDSA in relation to the sale and purchase of all the issued capital in DDSA.

Subscription Sum means the amount set out in the table in Section 7.2.

Third Performance Milestone has the meaning given to that term in Section 1.5 of this Notice.

Third Tranche Convertible Note Deed means the deed entered into between the Company and Delta Drone SA in relation to the issue of the Third Tranche Notes.

Third Tranche Notes means the convertible notes agreed to be issued to Delta Drone SA on 23 August 2020 and on the terms set out in Section 7.2.

Transaction Resolutions means resolutions 1, 2, 3, 4, 5, 7 and 8.

Voting Power has the meaning given in section 9 of the Corporations Act.

SCHEDULE 1: TERMS AND CONDITIONS OF PERFORMANCE SHARES

The terms and conditions of the Class A Performance Shares (for the purposes of this Part A of the Schedule, each a **Performance Share**) are set out as follows:

- (a) **(Entitlement)** Each Performance Share entitles Delta Drone SA to subscribe for one fully paid ordinary Share in the capital of the Company if DDSA achieves consolidated revenue (for the avoidance of doubt, only DDSA and excluding the Company) for any full financial year (being 1 January to 31 December) during the three-year term of the Performance Share of not less than US\$3.2 million.
- (b) **(Notice of satisfaction of First Performance Milestone)** The Company will give written notice to Delta Drone SA promptly following satisfaction of the First Performance Milestone or lapse of the Performance Shares where the First Performance Milestone is not satisfied.
- (c) **(No voting rights)** A Performance Share does not entitle Delta Drone SA to vote on any resolutions proposed by the Company except as otherwise required by law.
- (d) **(No dividend rights)** A Performance Share does not entitle Delta Drone SA to any dividends.
- (e) **(No rights to return of capital)** A Performance Share does not entitle Delta Drone SA to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (f) **(Rights on winding up)** A Performance Share does not entitle Delta Drone SA to participate in the surplus profits or assets of the Company upon winding up.
- (g) **(Not transferable)** A Performance Share is not transferable.
- (h) **(Reorganisation of capital)** If at any time the issued capital of the Company is reconstructed, all rights of Delta Drone SA will be changed in a manner consistent with the applicable ASX Listing Rules and Corporations Act at the time of reorganisation.
- (i) **(Application to ASX)** The Performance Shares will not be quoted on ASX. However, the Company must apply for the official quotation of a Share issued on conversion of a Performance Share on ASX within the time period required by the ASX Listing Rules.
- (j) **(Participation in new issues)** A Performance Share does not entitle Delta Drone SA (in its capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (k) **(Change of control):**
 - (i) Subject to paragraph (k)(ii), if there is a Change of Control Event (defined below) in relation to the Company prior to the conversion of the Performance Shares, then the First Performance Milestone will be deemed to have been achieved and each Class A Performance Share will automatically and immediately convert into a Share.
 - (ii) If the number of Shares to be issued as a result of the conversion of all Performance Shares due to a Change of Control Event in relation to the Company is in excess of 10% of the share capital of the

Company at the time of the conversion, then the number of Class A Performance Shares to be converted will be pro-rated so that the aggregate number of Shares issued upon conversion of the Performance Shares is equal to 10% of the share capital of the Company at the time of conversion

For the purpose of this clause (k), a Change of Control Event occurs where:

- (iii) a person acquires a Voting Power in more than 50% of the Shares as a result of a takeover bid and that takeover bid is declared unconditional by the bidder; or
 - (iv) a person acquires a Voting Power in more than 50% of the Shares through a scheme of arrangement and the court grant orders approving the scheme of arrangement and those court orders are lodged with ASIC.
- (l) **(No other rights)** A Performance Share gives Delta Drone SA no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Performance Shares

- (a) **(First Performance Milestone)** A Performance Share will convert into a Share upon satisfaction of the First Performance Milestone.
- (b) **(Lapse)** If the First Performance Milestone is not satisfied within three (3) years of the date of issue then the relevant Performance Share will automatically lapse.
- (c) **(Issue of Shares)** The Company will issue the Shares on conversion of a Performance Share within ten (10) business days following the conversion or such other period required by the ASX Listing Rules.
- (d) **(Holding statement)** The Company will issue Delta Drone SA with a new holding statement for any Shares issued upon conversion of a Performance Share within ten (10) business days following the issue of the Shares.
- (e) **(Ranking upon conversion)** The Shares into which a Performance Share may convert will rank pari passu in all respects with existing Shares.

PART B - TERMS AND CONDITIONS OF CLASS B PERFORMANCE SHARES

The terms and conditions of the Class B Performance Shares (for the purposes of this Part B of the Schedule, each a **Performance Share**) are set out as follows:

- (a) **(Entitlement)** Each Performance Share entitles Delta Drone SA to subscribe for one fully paid ordinary Share in the capital of the Company if DDSA enters into at least two binding contracts with Australian based mining companies for the provision of drone survey or mapping solutions services to those mining companies in Australia with a verified contract value to be received by DDSA for those services in the first 5 years from the date on which the contracts are executed of not less than US\$1,000,000.
- (b) **(Notice of satisfaction of Second Milestone)** The Company shall give written notice to Delta Drone SA promptly following satisfaction of the Second Performance Milestone or lapse of the Performance Shares where the Second Performance Milestone is not satisfied.
- (c) **(No voting rights)** A Performance Share does not entitle Delta Drone SA to vote on any resolutions proposed by the Company except as otherwise required by law.

- (d) **(No dividend rights)** A Performance Share does not entitle the Company to any dividends.
- (e) **(No rights to return of capital)** A Performance Share does not entitle Delta Drone SA to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (f) **(Rights on winding up)** A Performance Share does not entitle Delta Drone SA to participate in the surplus profits or assets of the Company upon winding up.
- (g) **(Not transferable)** A Performance Share is not transferable.
- (h) **(Reorganisation of capital)** If at any time the issued capital of the Company is reconstructed, all rights of Delta Drone SA will be changed in a manner consistent with the applicable ASX Listing Rules and Corporations Act at the time of reorganisation.
- (i) **(Application to ASX)** The Performance Shares will not be quoted on ASX. However, the Company must apply for the official quotation of a Share issued on conversion of a Performance Share on ASX within the time period required by the ASX Listing Rules.
- (j) **(Participation in new issues)** A Performance Share does not entitle Delta Drone SA (in its capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (k) **(Change of control):**
 - (i) Subject to paragraph (k)(ii), if there is a Change of Control Event (defined below) in relation to the Company prior to the conversion of the Performance Shares, then the Second Performance Milestone will be deemed to have been achieved and each Class B Performance Share will automatically and immediately convert into a Share.
 - (ii) If the number of Shares to be issued as a result of the conversion of all Performance Shares due to a Change of Control Event in relation to the Company is in excess of 10% of the share capital of the Company at the time of the conversion, then the number of Class B Performance Shares to be converted will be pro-rated so that the aggregate number of Shares issued upon conversion of the Performance Shares is equal to 10% of the share capital of the Company at the time of conversion

For the purpose of this clause (k), a Change of Control Event occurs where:

 - (iii) a person acquires a Voting Power in more than 50% of the Shares as a result of a takeover bid and that takeover bid is declared unconditional by the bidder; or
 - (iv) a person acquires a Voting Power in more than 50% of the Shares through a scheme of arrangement and the court grant orders approving the scheme of arrangement and those court orders are lodged with ASIC.
- (l) **(No other rights)** A Performance Share gives Delta Drone SA no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Performance Shares

- (a) **(Second Performance Milestone)** A Performance Share will convert into a Share upon satisfaction of the Second Performance Milestone).
- (b) **(Lapse)** If the Second Performance Milestone is not satisfied within three (3) years of the date of issue then the relevant Performance Share will automatically lapse.
- (c) **(Issue of Shares)** The Company will issue the Share on conversion of a Performance Share within ten (10) business days following the conversion or such other period required by the ASX Listing Rules.
- (d) **(Holding statement)** The Company will issue Delta Drone SA with a new holding statement for any Shares issued upon conversion of a Performance Share within ten (10) business days following the issue of the Share.
- (e) **(Ranking upon conversion)** The Shares into which a Performance Share may convert will rank pari passu in all respects with existing Shares.

PART C - TERMS AND CONDITIONS OF CLASS C PERFORMANCE SHARES

The terms and conditions of the Class C Performance Shares (for the purposes of this Part C of the Schedule, each a **Performance Share**) are set out as follows:

- (a) **(Entitlement)** Each Performance Share entitles Delta Drone SA to subscribe for one fully paid ordinary Share in the capital of the Company if during the three year term of the Class C Performance Shares the Company announces to the ASX that DDSA has expanded the services of its business offering into a new geographic location outside of Australia, Israel, South Africa, Ghana and Namibia and achieved a revenue in that new geographic location of not less than US\$1,000,000.
- (b) **(Notice of satisfaction of Third Milestone)** the Company shall give written notice to Delta Drone SA promptly following satisfaction of the Third Performance Milestone or lapse of the Performance Shares where the Third Performance Milestone is not satisfied.
- (c) **(No voting rights)** A Performance Share does not entitle Delta Drone SA to vote on any resolutions proposed by the Company except as otherwise required by law.
- (d) **(No dividend rights)** A Performance Share does not entitle Delta Drone SA to any dividends.
- (e) **(No rights to return of capital)** A Performance Share does not entitle Delta Drone SA to a return of capital whether in a winding up. upon a reduction of capital or otherwise.
- (f) **(Rights on winding up)** A Performance Share does not entitle Delta Drone SA to participate in the surplus profits or assets of the Company upon winding up.
- (g) **(Not transferable)** A Performance Share is not transferable.
- (h) **(Reorganisation of capital)** If at any time the issued capital of the Company is reconstructed, all rights of Delta Drone SA will be changed in a manner consistent with the applicable ASX Listing Rules and Corporations Act at the time of reorganisation.
- (i) **(Application to ASX)** The Performance Shares will not be quoted on ASX. However, the Company must apply for the official quotation of a Share

issued on conversion of a Performance Share on ASX within the time period required by the ASX Listing Rules.

- (j) **(Participation in new issues)** A Performance Share does not entitle Delta Drone SA (in its capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (k) **(Change of control):**
 - (i) Subject to paragraph (k)(ii), if there is a Change of Control Event (defined below) in relation to the Company prior to the conversion of the Performance Shares, then the Third Performance Milestone will be deemed to have been achieved and each Class C Performance Share will automatically and immediately convert into a Share.
 - (ii) If the number of Shares to be issued as a result of the conversion of all Performance Shares due to a Change of Control Event in relation to the Company is in excess of 10% of the share capital of the Company at the time of the conversion, then the number of Class C Performance Shares to be converted will be pro-rated so that the aggregate number of Shares issued upon conversion of the Performance Shares is equal to 10% of the share capital of the Company at the time of conversion

For the purpose of this clause, a Change of Control Event occurs where:

- (iii) a person acquires a Voting Power in more than 50% of the Shares as a result of a takeover bid and that takeover bid is declared unconditional by the bidder; or
 - (iv) a person acquires a Voting Power in more than 50% of the Shares through a scheme of arrangement and the court grant orders approving the scheme of arrangement and those court orders are lodged with ASIC.
- (l) **(No other rights)** A Performance Share gives Delta Drone SA no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Performance Shares

- (a) **(Third Performance Milestone)** A Performance Share will convert into a Share upon satisfaction of the Third Performance Milestone.
- (b) **(Lapse)** If the Third Performance Milestone is not satisfied within three (3) years of the date of issue then the relevant Performance Share will automatically lapse.
- (c) **(Issue of Shares)** The Company will issue the Share on conversion of a Performance Share within ten (10) business days following the conversion or such other period required by the ASX Listing Rules.
- (d) **(Holding statement)** The Company will issue Delta Drone SA with a new holding statement for any Shares issued upon conversion of a Performance Share within ten (10) business days following the issue of the Share.
- (e) **(Ranking upon conversion)** The Shares into which a Performance Share may convert will rank pari passu in all respects with existing Shares.

SCHEDULE 2: PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

This pro forma consolidated statement of financial position is for the merged ParaZero and DDSA as at 30 June 2020, adjusted to reflect the Proposed Transaction and the Proposed Capital Raising based on the Company raising \$3.5 million under the Proposed Capital Raising.

	Parazero Reviewed as at 30-Jun-20 US\$	DDSA Reviewed as at 30-Jun-20 US\$	Subsequent events US\$	Pro-forma adjustments US\$	Pro-forma after issue US\$
CURRENT ASSETS					
Cash and cash equivalents	122,534	565,975	551,283	1,847,231	3,087,023
Trade and other receivables	123,335	288,815	-	-	412,150
Current tax receivable	-	25,959	-	-	25,959
Inventory	699,649	27,426	-	-	727,075
TOTAL CURRENT ASSETS	945,518	908,175	551,283	1,847,231	4,252,207
NON CURRENT ASSETS					
Property plant & equipment	69,838	255,364	-	-	325,202
Goodwill	-	378,499	3,925,000	-	4,303,499
Intangible assets	-	35,485	-	-	35,485
Right of use assets	-	91,832	-	-	91,832
Deferred tax	-	36,672	-	-	36,672
TOTAL NON CURRENT ASSETS	69,838	797,852	3,925,000	-	4,792,690
TOTAL ASSETS	1,015,356	1,706,027	4,476,283	1,847,231	9,044,897
CURRENT LIABILITIES					
Trade and other payables	239,337	20,856	-	-	260,193
Loans from Group Companies	-	1,800,898	(1,800,898)	-	-
Borrowings	26,312	-	-	-	26,312
Other financial liability	82,269	-	-	-	82,269
Current tax payable	-	1,125	-	-	1,125
Lease liabilities	-	38,792	-	-	38,792
Convertible notes	581,621	-	(581,621)	-	-
TOTAL CURRENT LIABILITIES	929,539	1,861,671	(2,382,519)	-	408,691
NON CURRENT LIABILITIES					
Other financial liability	177,136	-	-	-	177,136

Deferred tax	-	9,936			9,936
Lease liabilities	-	67,069	-	-	67,069
TOTAL NON CURRENT LIABILITIES	177,136	77,005	-	-	254,141
TOTAL LIABILITIES	1,106,675	1,938,676	(2,382,519)	-	662,832
NET ASSETS/(LIABILITIES)	(91,319)	(232,649)	6,858,802	1,847,231	8,382,065
EQUITY					
Issued Capital	10,681,414	671,786	(5,549,444)	2,187,845	7,991,601
Share based payments reserve	1,988,085	-	(1,988,085)	-	-
Predecessor accounting reserve	(188,690)	(560,994)	188,690	-	(560,994)
Foreign exchange reserves	(219,669)	5,036	219,669	-	5,036
Accumulated losses	(12,352,459)	(391,910)	13,987,972	(340,614)	902,989
TOTAL	(91,319)	(276,082)	6,858,802	1,847,231	8,338,632
Non controlling interest	-	43,433	-	-	43,433
TOTAL EQUITY	(91,319)	(232,649)	6,858,802	1,847,231	8,382,065

This pro forma consolidated statement of financial position is for the merged ParaZero and DDSA as at 30 June 2020, adjusted to reflect the Proposed Transaction and the Proposed Capital Raising based on the Company raising \$5 million under the Proposed Capital Raising.

	Parazero Reviewed as at 30-Jun-20 US\$	DDSA Reviewed as at 30-Jun-20 US\$	Subsequent events US\$	Pro-forma adjustments US\$	Pro-forma after issue US\$
CURRENT ASSETS					
Cash and cash equivalents	122,534	565,975	551,283	2,813,193	4,052,985
Trade and other receivables	123,335	288,815	-	-	412,150
Current tax receivable	-	25,959	-	-	25,959
Inventory	699,649	27,426	-	-	727,075
TOTAL CURRENT ASSETS	945,518	908,175	551,283	2,813,193	5,218,169
NON CURRENT ASSETS					
Property plant & equipment	69,838	255,364	-	-	325,202
Goodwill	-	378,499	3,925,000	-	4,303,499
Intangible assets	-	35,485	-	-	35,485
Right of use assets	-	91,832	-	-	91,832
Deferred tax	-	36,672	-	-	36,672
TOTAL NON CURRENT ASSETS	69,838	797,852	3,925,000	-	4,792,690
TOTAL ASSETS	1,015,356	1,706,027	4,476,283	2,813,193	10,010,859
CURRENT LIABILITIES					
Trade and other payables	239,337	20,856	-	-	260,193
Loans from Group Companies	-	1,800,898	(1,800,898)	-	-
Borrowings	26,312	-	-	-	26,312
Other financial liability	82,269	-	-	-	82,269
Current tax payable	-	1,125	-	-	1,125
Lease liabilities	-	38,792	-	-	38,792
Convertible notes	581,621	-	(581,621)	-	-
TOTAL CURRENT LIABILITIES	929,539	1,861,671	(2,382,519)	-	408,691
NON CURRENT LIABILITIES					
Other financial liability	177,136	-	-	-	177,136
Deferred tax	-	9,936	-	-	9,936
Lease liabilities	-	67,069	-	-	67,069
TOTAL NON CURRENT LIABILITIES	177,136	77,005	-	-	254,141
TOTAL LIABILITIES	1,106,675	1,938,676	(2,382,519)	-	662,832

NET ASSETS/(LIABILITIES)	(91,319)	(232,649)	6,858,802	2,813,193	9,348,027
EQUITY					
Issued Capital	10,681,414	671,786	(5,549,444)	3,132,559	8,936,315
Share based payments reserve	1,988,085	-	(1,988,085)	-	-
Predecessor accounting reserve	(188,690)	(560,994)	188,690	-	(560,994)
Foreign exchange reserves	(219,669)	5,036	219,669	-	5,036
Accumulated losses	(12,352,459)	(391,910)	13,987,972	(319,366)	924,237
TOTAL	(91,319)	(276,082)	6,858,802	2,813,193	9,304,594
Non controlling interest	-	43,433	-	-	43,433
TOTAL EQUITY	(91,319)	(232,649)	6,858,802	2,813,193	9,348,027

SCHEDULE 3: CHRISTOPHER CLARK DIRECTOR NOMINATION

Friday, 18 September 2020

Board of Directors
ParaZero Limited
Level 27, 101 Collins Street
Melbourne, VIC 3000

NOMINATION OF DIRECTOR

I, Christopher Clark, provide notice of my nomination to be appointed as a director of ParaZero Limited ACN 618 678 701 (**Company**) in accordance with clause 14.3 of the Company's constitution. This notice should be taken as my consent and signifying my candidature for the office of director.

My qualifications and experiences are set out in the Schedule 1 to this notice.

Please distribute a copy of this notice of nomination to each of the Company's shareholders as required by clause 14.3 of the Company's constitution.

Enclosed is my formal letter of consent to act as a director and notice of personal details and declaration of interest as required by the *Corporations Act 2001* (Cth).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Christopher Clark', written over a large, loopy flourish.

Christopher Clark

Schedule 1– Qualifications and Experience

I have been involved in the mining and survey services sector for over 10 years in South Africa, beginning with technology and communication projects for mining giant Anglo American.

I spearheaded the development and growth of the Rocketmine brand to a point where the company garnered international interest and was bought by the French-listed Delta Drone SA.

Since then, I have remained the Group Managing Director for Delta Drone South Africa and Rocketmine South Africa, which provide mining-specific drone data services across West and Southern Africa for some of the world's biggest mining groups, including Exxarro, South 32 and Newmont.

Under my supervision, the Delta Drone South Africa has grown across the African continent, with the establishment of permanent offices in Ghana supporting West Africa development and project in Namibia.

I have also set up new verticals of the business in agriculture and executive training. The Rocketfarm brand now provides premier drone services to some of the world's largest seeding and chemical manufacturers; while Drone Safety and Legal has developed into an executive training arm of the Target, partnering with leading South African Universities to provide specialised drone training in the mining, agricultural and engineering fields.

I hold a Bachelor of Accounting from the University of Johannesburg, as well as a Master of Business Administration from the University of Pretoria (Gordons Institute of Business Science).

CONSENT TO ACT AS A DIRECTOR OF COMPANY, NOTICE OF PERSONAL DETAILS AND DECLARATION OF INTEREST

TO: **PARAZERO LIMITED** ACN 618 678 701

1. Consent

For the purpose of the *Corporations Act 2001* (Cth), I confirm my consent to act as a director of ParaZero Limited ACN 618 678 701.

2. Personal details

For the purpose of the *Corporations Act 2001* (Cth), I give notice of the following personal details.

Present given and family names	Christopher Clark
All former given and family names	N/A
Date and place of birth	Cape Town, South Africa
Usual residential address	793/3 Archwood Circle, Dainfern, Johannesburg, South Africa

3. Declaration of interest

For the purposes of the *Corporations Act 2001* (Cth), I confirm that I have no material personal interest.

DATED this 18 day of September, 2020.

.....
Christopher Clark

ANNEXURE A: INDEPENDENT EXPERT'S REPORT



PARAZERO LIMITED

Financial Services Guide and Independent Expert's Report

13 October 2020

FINANCIAL SERVICES GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 ("RSM Corporate Australia Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint, we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent dispute resolution scheme that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au. You may contact AFCA directly by email, telephone or in writing at the address set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Toll Free: 1800 931 678
Email: info@afca.org.au

Time limits may apply to make a complaint to the AFCA, so you should act promptly or consult the AFCA website to determine if or when the time limit relevant to your circumstance expires.

Contact details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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13 October 2020

The Directors
ParaZero Limited
Level 27, 101 Collins Street
Melbourne VIC 3000

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of Extraordinary General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for an Extraordinary General Meeting of ParaZero Limited ("ParaZero" or "the Company") to be held on or around 3 December 2020, at which shareholder approval will be sought for a number of resolutions, including the issue of shares and performance shares to Delta Drone SA to acquire Delta Drone South Africa (Pty) Ltd ("DDSA" or "Delta Drone South Africa"), as set out below:

Resolution 1 – Approval for Change to Nature and Scale of Activities

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to all other Transaction Resolutions being passed, for the purposes of Listing Rule 11.1.2, and all other purposes, the Company be authorised to make a significant change to the nature and scale of its activities by completing the Proposed Transaction as set out in the Explanatory Statement."

Resolution 2 – Creation of Performance Shares

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That, subject to all other Transaction Resolutions being passed, for the purpose of section 246B(1) of the Corporations Act and clause 2.4 of the Constitution and for all other purposes, the Company is authorised to create and issue the Performance Shares on the terms and conditions set out in the Explanatory Statement."

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RSM Corporate Australia Pty Ltd ABN 82 050 508 024 Australian Financial Services Licence No. 255847

Resolution 3 – Approval of Performance Shares to Delta Drone SA

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to all other Transaction Resolutions being passed, for the purposes of ASX Listing Rule 6.1, ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of 45,000,000 Performance Shares to Delta Drone SA, on the terms and conditions set out in this Explanatory Statement.”

Resolution 4 – Issue of Shares in Connection with the Proposed Transaction, Proposed Capital Raising and Conversion Shares to Delta Drone SA

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to all other Transaction Resolutions being passed, for the purposes of section 208 and item 7 section 611 of the Corporations Act and all other purposes, Shareholder approval is given for Delta Drone SA to acquire a relevant interest in up to 297,458,636 Shares comprising of:

- (A) 203,512,750 Consideration Shares;*
- (B) 45,000,000 Performance Conversion Shares;*
- (C) 27,205,882 Conversion Shares; and*
- (D) 12,500,000 Shares under the Proposed Capital Raising,*

which, together with the 9,240,004 Shares already held by Delta Drone SA, will result in Delta Drone SA’s relevant interest in issued voting Shares of the Company increasing from 6.6% to up to 64.2%, on the terms and conditions set out in the Explanatory Statement.”

Resolution 5 – Issue of Shares under the Proposed Capital Raising

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to all other Transaction Resolutions being passed, for the purposes of ASX Listing Rule 7.1 and for all other purposes, the Shareholders approve the issue and allotment of up to 125,000,000 Shares at an issue price of \$0.04 per Share, to raise up to \$5 million, on the terms and conditions set out in the Explanatory Statement.”

Resolution 6 – Approval of Convertible Notes being Convertible

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve:

- (A) the Convertible Notes becoming convertible; and*
- (B) the issue of the Conversion Shares to Delta Drone SA on conversion of the indebtedness under the Second Tranche Notes and the Third Tranche Notes to Shares;*

in accordance with the terms of the Notes and on the terms and conditions set out in the Explanatory Statement.”

Resolution 7 – Appointment of Proposed Director – Christopher Clark

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to all other Transaction Resolutions being passed, for the purpose of clause 14.3 of the Constitution and for all other purposes, Christopher Clark, be elected as a Director with effect from Completion on the terms and conditions set out in the Explanatory Statement.”

Resolution 8 – Change of Name

To consider and, if thought fit, to pass the following resolution as a special resolution:

“That, subject to all other Transaction Resolutions being passed, for the purpose of section 157(1)(a) of the Corporations Act and for all other purposes, approval is given for the name of the Company to be changed to Delta Drone International Limited and, for the purposes of section 136(2) of the Corporations Act and for all other purposes, all references to “ParaZero Limited” in the Constitution of the Company be replaced with references to Delta Drone International Limited”, on the terms and conditions set out in the Explanatory Statement.”

- 1.2 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd (“RSM”), being independent and qualified for the purpose, express an opinion as to whether the proposed acquisition of all the issued capital in Delta Drone South Africa, and in particular, Resolution 4 (“the Proposed Transaction”), is fair and reasonable to ParaZero shareholders not associated with the Proposed Transaction (“Shareholders” or “Non-Associated Shareholders”).
- 1.3 Resolutions 1, 2, 3, 4, 5, 7 and 8 (collectively, the “Transaction Resolutions”) as defined in the Notice, are interdependent. If each of the Transaction Resolutions are not passed, the Proposed Transaction will not proceed. Accordingly, we have assessed whether Resolutions 1, 2, 3, 4, 7 and 8 are fair and reasonable to Non-Associated Shareholders through evaluating whether the Proposed Transaction is, as a whole, fair and reasonable to Non-Associated Shareholders.
- 1.4 We have considered the approval of Resolution 5 (the Proposed Capital Raising to raise a minimum of \$3.5m and a maximum of \$5m before costs), in our assessment of the reasonableness of the Proposed Transaction.
- 1.5 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder’s assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take regarding the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

Opinion

- 2.1 In our opinion, for the reasons set out in sections 10 and 11 of this Report, and for the purposes of section 611 item 7 of the Corporations Act, the Proposed Transaction is **not fair but reasonable** to Non-Associated Shareholders.

Approach

- 2.2 In assessing whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – Content of expert reports (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.
- 2.3 Where an issue of shares by a company otherwise prohibited under section 606 of the Corporations Act 2001 (“Corporations Act” or “the Act”) is approved under section 611, item 7, and the effect on the company shareholding is comparable to a takeover bid, such as the Proposed Transaction, RG 111 states that the transaction should be analysed as if it was a takeover bid.
- 2.4 Therefore, we have considered whether or not the Proposed Transaction is “fair” to Non-Associated Shareholders by assessing and comparing:
- the Fair Value of a Share in ParaZero on a controlling basis prior to the Proposed Transaction; with
 - the Fair Value of a Share in ParaZero on a non-controlling basis immediately post completion of the Proposed Transaction.
- 2.5 We have also considered whether the Proposed Transaction is “reasonable” to Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transaction.
- 2.6 Further information on the approach we have employed in assessing whether the Proposed Transaction is “fair” and “reasonable” is set out Section 4 of this Report.

Fairness

- 2.7 In assessing the fairness of the Proposed Transaction, we have valued a share in ParaZero prior to (on a controlling basis) and immediately after the Proposed Transaction (on a non-controlling basis) as set out in the table below.

	Ref	Low	High	Preferred
Fair Value per share prior to the Proposed Transaction (controlling basis)	Table 11	US\$0.021	US\$0.021	US\$0.021
Fair Value per share immediately after the Proposed Transaction (non-controlling basis)	Table 18	US\$0.015	US\$0.017	US\$0.016

Source: RSM analysis

Table 1: Valuation Summary

2.8 As we have utilised the net assets on a going concern basis as our primary valuation methodology, our valuation of a ParaZero share prior to the Proposed Transaction comprises a single value. The range obtained in our valuation of a ParaZero share immediately after the Proposed Transaction is based on our valuation of the Company on a sum-of-parts basis and the application of a minority interest discount in our assessment of the Fair Value of a ParaZero share immediately after the Proposed Transaction.

2.9 The above is represented graphically as set out in the chart below.



Chart 1: Valuation summary graphical representation

2.10 In our opinion, as the Fair Value of a ParaZero share (on a non-controlling basis) immediately after the Proposed Transaction, is less than the Fair Value of a ParaZero share (on a controlling basis) prior to the Proposed Transaction, we consider the Proposed Transaction is **not fair** to the Non-Associated Shareholders of ParaZero.

Reasonableness

2.11 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- the future prospects of the Company if the Proposed Transaction does not proceed;
- the trading of ParaZero's shares following the announcement of the Proposed Transaction;
- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding; and
- alternative proposals to the Proposed Transaction.

Future prospects of ParaZero if the Proposed Transaction does not proceed

2.12 If the Proposed Transaction is not approved, the Company will apply to the ASX to have the suspension of its shares lifted and its shares reinstated to the ASX Official List.

2.13 For HY20, ParaZero disclosed losses before tax of US\$618k and operating cash outflows of US\$570k.

2.14 The reviewed financial statements for HY20 included an emphasis of matter in the independent auditor's report issued by BDO that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern. Whilst the auditor's opinion was not modified in respect of this matter, it was noted that ParaZero's ability to continue as a going concern was dependent on whether ParaZero could secure additional funding either through equity, debt or receipts from product sales, or a combination of all, to continue its operational and technology development activities.

- 2.15 Whilst Resolution 6 is not a Transaction Resolution, if Resolution 6 is not approved, the Second Tranche and Third Tranche Notes would not automatically convert to shares, and the Company would be required to seek alternative funding to support existing operations and fund the redemption of the Notes.
- 2.16 In the event that the Company is unable to raise additional funding as and when required, there is a risk that the Company may not be able to continue as a going concern.

Advantages of approving the Proposed Transaction to Shareholders:

- 2.17 The advantages of the Proposed Transaction are:
- the acquisition would increase the scale of the Company which may result in increased investor interest and enhanced liquidity of the Company's shares for shareholders, and hence, a more efficient market for shareholders to dispose of their shareholdings;
 - the ongoing operating losses of the Company could be reduced as DDSA has historically generated an operating profit;
 - the acquisition of DDSA provides the Company with access to a range of other drone related technologies held by Delta Drone SA and could provide opportunities for the Company to expand the provision of its products and services to the mining and agricultural industries;
 - the Proposed Transaction is contingent upon the Company successfully completing the Proposed Capital Raising to comply with Chapters 1 and 2 of the Listing Rules and raise sufficient capital to strengthen the Company's balance sheet. Furthermore, the Proposed Capital Raising is intended to contribute to the execution of the Company's business plan to accelerate the growth of its drone service business in Australia and target additional revenue from the Company's safety systems in the global OEM markets; and
 - the Company would widen the geographical spread of existing business as the technological centre in Israel could provide solutions to service-based operations in Australia and Africa, along with existing sales to Europe and North America.

Disadvantages of approving the Proposed Transaction to Shareholders:

- 2.18 The disadvantages of the Proposed Transaction are:
- the Proposed Transaction is not fair;
 - the dilution of Non-Associated Shareholders' interests from 93.4% to between 27.4% to 29.8% immediately after the Proposed Transaction (assuming the completion of the Capital Raising);
 - in the event the Performance Milestones are met as specified in paragraphs 3.5 to 3.8, Performance Shares will be issued to Delta Drone SA and Non-Associated Shareholders' interests would be further diluted;
 - the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals;
 - the Company will be changing the nature and scale of its activities which may not be consistent with the objectives of Shareholders;
 - the Company may need additional funding in the future to achieve its long-term goals which may result in further dilution at that time;

- the Company is incurring significant costs in relation to the Proposed Transaction, including lawyers, costs, advisors and experts. The Company will incur costs irrespective of whether or not the Proposed Transaction is successfully completed;
- there is no guarantee that the Company will successfully complete re-compliance or that ASX will approve the re-admission and re-quotation of the Shares of the Company upon passing all the Transaction Resolutions; and
- the Company will be exposed to additional geographical, regulatory, and foreign exchange risk as DDSA's operations are primarily based in South Africa, Ghana and Namibia.

Alternative proposals

- 2.19 We are not aware of any alternative proposals which may provide greater benefit to Non-Associated Shareholders at this time.

Response of the market to the Proposed Transaction

- 2.20 ParaZero's shares last traded on 31 January 2020 and closed at \$0.036. The Company's shares have also been suspended from quotation following the announcement of the Proposed Transaction on 12 March 2020. Accordingly, we have not been able to ascertain the market's reaction to the Proposed Transaction.

Conclusion on Reasonableness

- 2.21 In our opinion, and in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of ParaZero.

3. Summary of Proposed Transaction

Overview

- 3.1 On 12 March 2020, ParaZero announced that the Company had executed a letter of intent ("LOI") with Delta Drone SA, to acquire Delta Drone South Africa, a wholly owned subsidiary of Delta Drone SA (Proposed Transaction).
- 3.2 On the same date, the Company also announced that ParaZero's securities would remain in suspension until at least the earlier of when the Company either executed a binding agreement with Delta Drone SA for the transactions contemplated under the LOI and provided all the requisite information to the ASX, or until the Company advised that the LOI had been terminated.
- 3.3 On 7 October 2020, the Company entered into a Share Sale Agreement ("SSA") with Delta Drone SA pursuant to which the Company has agreed to acquire a 100% equity interest in Delta Drone South Africa. If successful, the ASX has advised that the Proposed Transaction will result in ParaZero significantly changing the nature and scale of its activities. Accordingly, the ASX has exercised its discretion under Listing Rule 11.1.2 to require that the Company seek Shareholder approval to make this significant change to the nature and scale of its activities, as contemplated under Resolution 1.
- 3.4 Under Resolutions 2 and 3, the Company is seeking approval to create and issue three classes of performance shares ("Performance Shares") to Delta Drone SA as deferred consideration to acquire DDSA under the SSA as follows:
- 20,000,000 Class A Performance Shares;
 - 15,000,000 Class B Performance Shares; and
 - 10,000,000 Class C Performance Shares.

- 3.5 Subject to certain performance milestones being achieved (“Performance Milestones”), the Performance Shares will convert into Shares.
- 3.6 In the case of Class A Performance Shares, the 20m Performance Shares will convert into 20m new Shares in the Company at \$nil consideration if Delta Drone South Africa achieves consolidated revenue (for the avoidance of doubt, only DDSA and excluding the Company) for any full financial year (being 1 January to 31 December) during the three-year term of the Performance Shares, of not less than US\$3.2m (based on audited accounts) (“First Performance Milestone”).
- 3.7 In the case of Class B Performance Shares, the 15m Performance Shares will convert into 15m new Shares at \$nil consideration if Delta Drone South Africa enters into at least two binding contracts with Australian based mining companies for the provision of drone survey or mapping solutions services to those mining companies in Australia and DDSA receives not less than US\$1,000,000 (based on audited accounts) of verified revenue in aggregate from such executed contracts received within the three year term of the Class B Performance Shares for DDSA’s services in relation to those contracts (“Second Performance Milestone”).
- 3.8 In the case of Class C Performance Shares, the 10m Performance Shares will convert into 10m new Shares at \$nil consideration if the Company announces to the ASX that DDSA has expanded the services of its business offering (being the provision of drone survey and mapping solutions) into a new geographic location outside of Australia, Israel, South Africa, Ghana, and Namibia, and achieved revenue in that new geographic location of not less than US\$1,000,000 (based on audited accounts), within the three year term of the Class C Performance Shares (“Third Performance Milestone”).
- 3.9 If the Performance Milestones are not satisfied within three years of the date of issue of the Performance Shares, then the relevant Performance Shares will automatically lapse.
- 3.10 Under Resolution 4, the Company will issue a total of 203,512,750 new Shares (“Consideration Shares”) to Delta Drone SA in accordance with the SSA. The issue of the 45m Performance Shares as set out above and the Consideration Shares will be issued in consideration to acquire a 100% equity interest in Delta Drone South Africa.
- 3.11 Under Resolution 4, Shareholder approval is also being sought for the issue to Delta Drone SA of 27,205,882 Conversion Shares (refer paragraphs 3.15 and 3.16 below), and 12,500,000 Shares under the Proposed Capital Raising (refer paragraph 3.12 below).
- 3.12 The approval of the Proposed Transaction will constitute a change to the nature and scale of the Company’s activities, and accordingly, ParaZero is required to comply with Chapters 1 and 2 of the ASX Listing Rules and undertake the Proposed Capital Raising in accordance with Resolution 5. Under Resolution 5, the Company proposes to raise a minimum of \$3.5m and a maximum of \$5m by issuing a minimum of 87,500,000 Shares and a maximum of 125,000,000 Shares at \$0.04 per share, respectively. Delta Drone SA has expressed an intention to invest up to \$500k under the Proposed Capital Raising, subject to Shareholder approval under Resolution 4.
- 3.13 Over the period 3 February to 18 May 2020, the Company issued \$644,000 in convertible notes (“First Tranche Notes”), of which \$504,000 were issued to Delta Drone SA. At the Company’s annual general meeting (“AGM”) held on 28 July 2020, shareholders approved the conversion of the First Tranche Notes at a conversion price of \$0.06 per share in addition to each noteholder (“Noteholder”) receiving 10% of the convertible note value at a conversion price of \$0.06 per share upon conversion of the First Tranche Notes.
- 3.14 On 7 August 2020, the First Tranche Notes were converted to shares in accordance with the terms set out above, resulting in the issue of 9,240,004 shares to Delta Drone SA.
- 3.15 Over the period 28 June 2020 to 28 September 2020, the Company issued two further tranches of convertible notes to Delta Drone SA, comprising \$500,000 convertible to shares at a conversion price of \$0.04 per share (“Second Tranche Notes”), and a further \$500,000 convertible to shares at a conversion price of \$0.034 per share (“Third Tranche Notes”).

- 3.16 Shareholder approval of the conversion of the Second Tranche Notes and Third Tranche Notes on the terms as set out above, is required as proposed in Resolution 6. If Resolution 6 is approved, a total of 27,205,882 Shares (“Conversion Shares”) will be issued to Delta Drone SA to convert the Second Tranche Notes and Third Tranche Notes. Whilst Shareholder approval is being sought under Resolution 4 for the issue of the Conversion Shares to Delta Drone SA, if Shareholders do not approve Resolution 6, the Conversion Shares will not be issued to Delta Drone SA. For the avoidance of doubt, as Resolution 6 is not a Transaction Resolution, the Proposed Transaction may still complete if Shareholders do not approve Resolution 6. Further detail on how the Company intends to fund the redemption of the Second and Third Tranche Notes if Resolution 6 is not approved or if Delta Drone SA elects to redeem the Notes, is set out in section 7 of the Notice.
- 3.17 Under Resolution 7, Mr Christopher Clarke will be appointed as Chief Executive Officer of the Company. Mr Clarke is the Managing Director for Delta Drone South Africa and its subsidiary company, Rocketmine South Africa (Pty) Ltd (“Rocketmine”).
- 3.18 Under Resolution 8, the Company’s name will be changed to Delta Drone International Limited.

Impact of Proposed Transaction on ParaZero’s Capital Structure

- 3.19 The table below summarises the capital structure of the Company prior to, and immediately following the Proposed Transaction (prior to the Proposed Capital Raising).

	Number of shares	%	Number of options	%	Number of Performance Shares	%
ParaZero capital structure prior to the Proposed Transaction						
Number of ordinary shares held by Delta Drone SA	9,240,004	6.6%	-	0.0%	-	0.0%
Number of ordinary shares and unlisted options held by Non-Associated Shareholders	129,842,095	93.4%	15,026,696	100.0%	-	0.0%
Total	139,082,099	100.0%	15,026,696	100.0%	-	0.0%
ParaZero capital structure immediately after the Proposed Transaction (before Proposed Capital Raising)						
Number of ordinary shares and Performance Shares held by Delta Drone SA after the issue of the Consideration Shares and Performance Shares	212,752,754	61.0%	-	0.0%	45,000,000	100.0%
Number of ordinary shares held by CIH (Broker Shares)	6,000,000	1.7%	-	0.0%	-	0.0%
Number of ordinary shares and unlisted options held by Non-Associated Shareholders	129,842,095	37.2%	15,026,696	100.0%	-	0.0%
Total	348,594,849	100.0%	15,026,696	100.0%	45,000,000	100.0%

Source: Company share registry, SSA and RSM analysis

Table 2: ParaZero capital structure prior to and immediately after the Proposed Transaction (before the Proposed Capital Raising)

3.20 The table below summarises the capital structure of the Company immediately after the approval of the Proposed Capital Raising (Resolution 5).

	Number of shares	%	Number of options	%	Number of Performance Shares	%
Effect of the Proposed Capital Raising (minimum raise)						
Number of ordinary shares and Performance Shares held by Delta Drone SA	225,252,754	51.7%	-	0.0%	45,000,000	100.0%
Number of ordinary shares held by new shareholders as a result of the Proposed Capital Raising	75,000,000	17.2%	-	0.0%	-	0.0%
Number of ordinary shares held by CIH (Broker Shares)	6,000,000	1.4%	-	0.0%	-	0.0%
Number of ordinary shares and unlisted options held by Non-Associated Shareholders	129,842,095	29.8%	15,026,696	100.0%	-	0.0%
Total (minimum raise)	436,094,849	100.0%	15,026,696	100.0%	45,000,000	100.0%
Effect of the Proposed Capital Raising (maximum raise)						
Number of ordinary shares and Performance Shares held by Delta Drone SA	225,252,754	47.6%	-	0.0%	45,000,000	100.0%
Number of ordinary shares held by new shareholders as a result of the Proposed Capital Raising	112,500,000	23.8%	-	0.0%	-	0.0%
Number of ordinary shares held by CIH (Broker Shares)	6,000,000	1.3%	-	0.0%	-	0.0%
Number of ordinary shares and unlisted options held by Non-Associated Shareholders	129,842,095	27.4%	15,026,696	100.0%	-	0.0%
Total (maximum raise)	473,594,849	100.0%	15,026,696	100.0%	45,000,000	100.0%

Source: Company share registry, SSA and RSM analysis

Table 3: ParaZero capital structure after the completion of the Proposed Capital Raising

- 3.21 Completion of the Proposed Transaction would result in the dilution of Non-Associated Shareholders' interests from 93.4% to between 27.4% to 29.8%, and Delta Drone SA acquiring between a 47.6% to 51.7% interest in the Company, assuming Delta Drone subscribes for \$500k (12,500,000 Shares) under the Proposed Capital Raising.
- 3.22 Assuming the Performance Shares are issued to Delta Drone in the event the Performance Milestones are satisfied, Non-Associated Shareholders would be further diluted to between 25.0% to 27.0%, and Delta Drone's interest would increase to 52.1% to 56.2%.
- 3.23 As the Performance Shares to be issued to Delta Drone SA under Resolutions 2 and 3 represent less than 10% of the number of ordinary shares the Company proposes to have on issue at the date the Performance Shares are to be issued, in accordance with ASX *Guidance Note 19: Performance Securities* ("GN19"), we have not prepared an opinion on whether the issue of the Performance Shares is fair and reasonable to Non-Associated Shareholders.
- 3.24 As consideration for Cukierman & Co Investment House Ltd ("CIH") having introduced the Company and DDSA to each other, 6,000,000 Broker Shares will be issued to CIH upon the completion of the Proposed Transaction.
- 3.25 The capital structure set out in section 1.16 of the Notice includes 33,000,000 in unallocated employee options ("Future ESOP") which the Company may issue to Management and Directors in the future. As the Future ESOP (unallocated) is not related to the Proposed Transaction and has no bearing on our assessment of fairness and reasonableness, the Future ESOP has been excluded from our analysis in Tables 2 and 3 above.
- 3.26 The capital structure set out in section 1.16 of the Notice also includes the 27,205,882 Conversion Shares to be issued if Resolution 6 is approved. As Resolution 6 is not a Transaction Resolution and has no bearing on our assessment of fairness and reasonableness, the Conversion Shares have also been excluded from our analysis in Tables 2 and 3 above.

- 3.27 As at the date of this Report, ParaZero has 15,026,696 unlisted share options on issue on the terms as set out below.

Issue date	Expiry date	Exercise price	No of options
13-Jun-18	13-Jun-23	\$0.0027	8,169,619
13-Jun-18	13-Jun-21	\$0.30	4,000,000
17-Apr-19	17-Apr-24	\$0.1125	955,480
24-Jun-19	24-Jun-24	\$0.1125	953,544
05-Nov-19	05-Nov-24	\$0.09	948,053
			15,026,696

Source: Company options register

Table 4: ParaZero unlisted options on issue

- 3.28 We have included the potential dilutionary impact of the current unlisted options on issue in our assessment of the value of a ParaZero share pre and immediately after the Proposed Transaction as set out in Section 8 of this Report.
- 3.29 Further details on the assumptions and inputs we have used to value the potential dilutionary impact of the options are set out in Appendix E.

4. Scope of the Report

Corporations Act

- 4.1 Section 606 of the Act prohibits a person from acquiring a relevant interest in the issued voting shares of a public company if the acquisition results in that person's voting interest in the company increasing from a starting point that is below 20% to an interest that is above 20%.
- 4.2 Completion of the Proposed Transaction will result in Delta Drone SA increasing its relevant interest in ParaZero of 6.6% to between 47.6% to 51.7% immediately post the Proposed Transaction (including the Proposed Capital Raising), and potentially holding a relevant interest of 52.1% to 56.2% if all the Performance Shares are issued.
- 4.3 Under item 7 of section 611 of the Act, the prohibition contained in section 606 does not apply if the acquisition has been approved by the Non-Associated Shareholders of the Company.
- 4.4 Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolution 4 under item 7 of section 611 of the Act.
- 4.5 Section 611 item 7 of the Act states that shareholders must be given all information that is material to the decision on how to vote at the meeting. RG 111 advises the requirement to commission an Independent Expert's Report in such circumstances and provides guidance on the content.

Basis of Evaluation

- 4.6 In determining whether the Proposed Transaction is "fair and reasonable", we have given regard to the views expressed by ASIC in RG 111.
- 4.7 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.

- 4.8 RG 111 states that the expert report should focus on:
- the issues facing the security holders for whom the report is being prepared; and
 - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.9 Where an issue of shares by a company otherwise prohibited under section 606 is approved under item 7 of section 611 and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states that the transaction should be analysed as if it was a takeover bid.
- 4.10 RG 111 applies the "fair and reasonable" test as two distinct criteria in the circumstance of a takeover bid, stating:
- a takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
 - a takeover offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer.
- 4.11 Consistent with the guidelines in RG 111, in determining whether the Proposed Transaction is "fair and reasonable" to the Non-Associated Shareholders, the analysis undertaken is as follows:
- a comparison of the Fair Value of an ordinary share in ParaZero prior to, and immediately following the Proposed Transaction, being the "consideration" for Non-Associated Shareholders in the assessment of fairness; and
 - a review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transaction in the assessment of reasonableness.
- 4.12 In particular, we have considered the advantages and disadvantages of the Proposed Transaction in the event that the Proposed Transaction proceeds or does not proceed including:
- the future prospects of the Company if the Proposed Transaction does not proceed; and
 - any other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.
- 4.13 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of ParaZero Limited

Background

- 5.1 The Company was incorporated on 21 April 2017 and was admitted to the ASX Official List on 14 June 2018 (ASX:PRZ). The Company specialises in enabling drone operations in urban or populated areas.
- 5.2 ParaZero develops and provides drone safety solutions. The Company has focused heavily on research and development (“R&D”) and is still operating at an early stage commercialisation of its product.
- 5.3 The Company’s SafeAir™ system for drones uses independent sensors to monitor and analyse a drone’s flight data and flight patterns and is able to detect a drone failure in-flight. Identified drone failures trigger a series of safety measures, including terminating power, deploying a patented parachute to provide a controlled descent, and sounding an alarm to alert bystanders.
- 5.4 The SafeAir™ technology also records flight data for statistical analysis and black box reporting to meet international aviation reliability standards.
- 5.5 The Company currently sells its drone safety systems to customers on a project-by-project basis, or as a finished product to developers and original equipment manufacturers (“OEMs”) of drone systems.

Directors and management

- 5.6 At the date of this Report, the directors and key management of ParaZero comprise the following:
 - Mr Eden Attias (Executive Chairman and Chief Executive Officer)
 - Mr Dan Arazi (Non-Executive Director)
 - Mr Stephen Gorenstein (Non-Executive Director)
 - Mr Chris Singleton (Non-Executive Director)
 - Mr Amir Tsaliah (Chief Technical Officer & Co-Founder)
 - Mr Ran Kaspi (Chief Financial Officer)
 - Mr Stephen Buckley (Company Secretary)

Financial information

- 5.7 The information in the following section provides a summary of the consolidated financial performance and financial position of ParaZero for the years ended 31 December 2017 (“FY17”), 31 December 2018 (“FY18”) and 31 December 2019 (“FY19”), and the half-year ended 30 June 2020 (“HY20”), extracted from audited and reviewed financial statements, as applicable.
- 5.8 The Company’s presentation currency is in US dollars (US\$).

Financial performance

5.9 The following table sets out a summary of the consolidated financial performance of ParaZero for FY17, FY18, FY19 and HY20.

ParaZero Limited Historical Financial Performance (USD)	Note	FY17 Audited US\$'000	FY18 Audited US\$'000	FY19 Audited US\$'000	HY20 Reviewed US\$'000
Revenue	5.10, 5.11	540	662	1,584	337
Cost of sales		(329)	(436)	(1,307)	(147)
Credit from supplier		-	-	-	87
Gross profit		211	226	276	278
Research and development expenses		(977)	(1,495)	(390)	(337)
General and administrative expenses		(775)	(1,099)	(1,128)	(435)
Selling and marketing expenses		(404)	(774)	(640)	(94)
Share-based payments	5.13	-	(1,368)	-	-
Total operating expenses	5.12	(2,156)	(4,736)	(2,157)	(866)
Operating loss		(1,945)	(4,510)	(1,881)	(588)
Finance expenses	5.17	(513)	(14)	(95)	(21)
Depreciation expenses		(17)	(15)	(17)	(8)
Loss before income tax	5.18	(2,474)	(4,539)	(1,993)	(618)
Income tax expense		-	-	-	-
Loss for the period attributable to equity holders		(2,474)	(4,539)	(1,993)	(618)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		-	(187)	1	(34)
Total comprehensive loss for the period		(2,474)	(4,726)	(1,992)	(651)
Total comprehensive loss attributable to:					
Owners of the Company		(2,474)	(4,726)	(1,992)	(651)

Source: Audited and reviewed financial statements

Table 5: ParaZero Financial Performance

- 5.10 The Company derives revenue from the sale of safety systems for drones and projects for OEM. ParaZero disclosed total revenue of US\$1.6m for FY19, a 39% increase compared to total revenue of US\$662k for FY18, due primarily to an increase in the North American market, selling certified aftermarket products as well as increased projects to certify OEM drones.
- 5.11 The Company disclosed total revenue of US\$337k for HY20. The decline in revenue was primarily attributable to the effect of the global COVID-19 pandemic with movement restrictions impacting sales. The lockdown which took place in Israel during March to May 2020 also hampered the R&D efforts to certify the new generation of the Company's products.
- 5.12 Operating expenses primarily comprise R&D expenses, selling and marketing expenses, and general and administrative expenses. Operating expenses in relation to R&D, selling and marketing and general and administrative expenses totalled US\$2.2m and US\$3.4m for FY19 and FY18, respectively. The decrease in these operating expenses in FY19 compared to FY18 was due primarily to the decrease in R&D expenses in FY19 which also included US\$252k in Israeli Innovation Authority Grants and royalties' adjustments that decreased the overall R&D expense for FY19.
- 5.13 Operating expenses for FY18 also included the recognition of US\$1.4m in share-based payment expenses.

- 5.14 Operating expenses totalled US\$866k for HY20. In March 2020 and in subsequent months, the Company has implemented the following steps to reduce its operating costs:
- a number of Israeli R&D employees were required to take unpaid leave during the period of government-imposed restrictions on movement and operations;
 - the Company received an exemption from municipality taxes, and the costs of utilities were further reduced due to the reduction in office activity; and
 - R&D expenses have been reduced through product focus and agreements with its main suppliers to reduce overall expenses.
- 5.15 Subsequent to the HY20 period, the Company is focused on expanding ParaZero's products and services to the mining and agriculture industries, with the aim of further expanding into other industries in 2021. The Company is also focusing on expanding its OEM (drone operators) partnerships and securing new OEM contracts from drone manufacturers.
- 5.16 The Company is also focused on integrating several technologies and applications to address an identified growing demand for Beyond Visual Line of Sight ("BVLOS") operations. It is intended that the BVLOS kit will become an integrated part of ParaZero's core safety system.
- 5.17 Finance expenses comprised interest and bank fees, exchange rate differences, related parties' interest and other expenses.
- 5.18 The Company disclosed losses before income tax of US\$2.5m, US\$4.5m and US\$2.0m for FY17, FY18 and FY19, respectively, and losses before income tax of US\$618k for HY20.

Financial position

5.19 The table below sets out a summary of the consolidated financial position of ParaZero as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020.

ParaZero Limited Historical Financial Position (USD)	Note	As at 31-Dec-17 Audited US\$'000	As at 31-Dec-18 Audited US\$'000	As at 31-Dec-19 Audited US\$'000	As at 30-Jun-20 Reviewed US\$'000
Current assets					
Cash and cash equivalents		54	585	208	123
Trade and other receivables		40	268	155	123
Inventory		-	858	752	700
Other current assets		82	-	-	-
Total current assets		176	1,711	1,114	946
Non-current assets					
Plant and equipment	5.23	81	94	78	70
Total non-current assets		81	94	78	70
Total assets		257	1,805	1,192	1,015
Current liabilities					
Trade and other payables		357	775	401	239
Credit and current maturities of long-term loans	5.24	159	56	90	26
Other financial liabilities	5.25	119	100	66	82
Convertible notes	5.21, 5.26	-	-	-	582
Total current liabilities		635	931	557	930
Non-current liabilities					
Convertible loans	5.21	2,962	-	-	-
Long term loans from bank		59	-	-	-
Other financial liabilities	5.25	268	376	75	177
Total non-current liabilities		3,289	376	75	177
Total liabilities		3,923	1,306	632	1,107
Net assets	5.21, 5.22	(3,666)	498	560	(91)
Issued capital	5.21, 5.22	1,196	8,628	10,681	10,681
Share-based payment reserves		341	1,988	1,988	1,988
Predecessor accounting reserve		-	(189)	(189)	(189)
Foreign exchange reserve		-	(187)	(186)	(220)
Accumulated losses		(5,203)	(9,742)	(11,735)	(12,352)
Total equity	5.21, 5.22	(3,666)	498	560	(91)

Source: Audited and reviewed financial statements

Table 6: ParaZero Financial Position

5.20 The Company originated as ParaZero Israel Ltd ("ParaZero Israel"). On 13 June 2018, the Company completed a transaction with the shareholders of ParaZero Israel to acquire 100% of the share capital of ParaZero Israel in exchange for 51.6m shares in the Company pursuant to ParaZero being admitted to the ASX Official List. In accordance with Australian Accounting Standards, the acquisition did not meet the definition of a business combination as ParaZero was established for the sole purpose of facilitating the listing process and to acquire ParaZero Israel by way of an equity swap. However, the capital structure of the legal acquirer, ParaZero is adopted in the Company's financial statements.

- 5.21 The Company disclosed net assets of US\$560k and US\$498k as at 31 December 2019 and 31 December 2018, respectively. This is compared to net liabilities of US\$3.7m as at 31 December 2017. The increase in net asset position to 31 December 2019 was due primarily to capital raising activities over the period, and the conversion of US\$3.0 convertible notes to shares in the Company as part of the acquisition of ParaZero Israel and the subsequent listing of the Company on the ASX.
- 5.22 The Company disclosed net liabilities of US\$91k at 30 June 2020. The decline in net asset position was due to losses disclosed for HY20.
- 5.23 Plant and equipment relate to office improvements, furniture and computers. The Company has not capitalised development expenditure in relation to its drone safety system.
- 5.24 Credit and current maturities of long-term loans relate to the current portion of bank loans, totalling US\$26k at 30 June 2020. As at 30 June 2020, the Company had no long-term bank loans.
- 5.25 Other financial liabilities relate to the liability for Israel Innovation Authority Grants. ParaZero Israel received funding from the Israeli Innovation Authority (“IIA”) for the IIA’s participation in research and development costs of ParaZero Israel, which are based on budgets approved by the IIA and subject to the fulfilment of specific milestones. ParaZero Israel is committed to pay royalties to the IIA on proceeds from the sale of products in the research and development of which the IIA participates by way of grants. Royalties of 3% to 3.5% are payable on sales of developed products funded, up to 100% of the grant received by ParaZero Israel. In the case of failure of a financed project, ParaZero Israel is not obliged to pay any such royalties to the IIA.
- 5.26 As set out in paragraphs 3.13 to 3.15, over the period 3 February to 18 May 2020, the Company issued the First Tranche Notes, totalling \$644k, and on 28 June 2020, the Company also issued \$200k of Second Tranche Notes, resulting in a total of \$844k (US\$582k) in First Tranche and Second Tranche Notes recognised as at 30 June 2020.
- 5.27 On 7 August 2020, the First Tranche Notes were converted to shares, resulting in the issue of 11,806,672 new shares, including the issue of 9,240,004 shares to Delta Drone SA.
- 5.28 Over the period 29 June 2020 to 28 September 2020, the remaining \$800k in Second Tranche and Third Tranche Notes were issued by the Company.

Capital structure

- 5.29 As of 10 August 2020, ParaZero had 139,082,099 ordinary shares on issue of which 82.3% were held by the top 20 shareholders. The top 20 ParaZero shareholders are set out in the table below.

Shareholder	Number	%
CAPRICORN INVESTMENT PARTNERS	24,417,857	17.6%
010 YAZAMUT LTD	23,959,727	17.2%
MEAH PLUS MAARCHOT BETICHOT	18,112,983	13.0%
RAN KRAUS	10,493,383	7.5%
DELTA DRONE SA	9,240,004	6.6%
ADFECT APS	5,107,395	3.7%
AMIR TSALIAH	3,523,386	2.5%
RONALD ZELAZO	3,238,622	2.3%
CARJAY INVESTMENTS PTY LTD	2,500,000	1.8%
RONALD ZELAZO	2,433,333	1.7%
CAPRICORN INVESTMENT PARTNERS	1,833,334	1.3%
JETMAX TRADING PTY LTD	1,681,250	1.2%
DUMANIS INVSETMENTS LTD	1,295,449	0.9%
CARJAY INVESTMENTS PTY LTD	1,093,750	0.8%
THE TRUST COMPANY (AUSTRALIA)	1,024,500	0.7%
AUTO MANAGEMENT PTY LTD	1,000,000	0.7%
HSBC CUSTODY NOMINEES	931,666	0.7%
ROB RUBIN	900,368	0.6%
PETERLYN PTY LTD	875,264	0.6%
IBI TRUST MANAGEMENT	844,100	0.6%
	114,506,371	82.3%
Other Shareholders	24,575,728	17.7%
Total	139,082,099	100.0%

Source: Company share register as at 10 August 2020

Table 7: ParaZero shareholder summary

- 5.30 As at the date of this Report, ParaZero has 15,026,696 unlisted share options on issue on the terms as set out below.

Issue date	Expiry date	Exercise price	No of options
13-Jun-18	13-Jun-23	\$0.0027	8,169,619
13-Jun-18	13-Jun-21	\$0.30	4,000,000
17-Apr-19	17-Apr-24	\$0.1125	955,480
24-Jun-19	24-Jun-24	\$0.1125	953,544
05-Nov-19	05-Nov-24	\$0.09	948,053
			15,026,696

Source: Company options register

Table 8: ParaZero unlisted options on issue

- 5.31 We have included the potential dilutionary impact of the current unlisted options on issue in our assessment of the value of a ParaZero share prior to and immediately after the Proposed Transaction as set out in Sections 8 and 9 of this Report.
- 5.32 Further details on the assumptions and inputs we have used to value the potential dilutionary impact of the options are set out in Appendix E.

Share price performance

5.33 The chart below sets out a summary of ParaZero's daily closing share price and traded volumes on the ASX from the period 2 January 2019 to 31 January 2020 (the last day shares were traded as at the date of this Report).

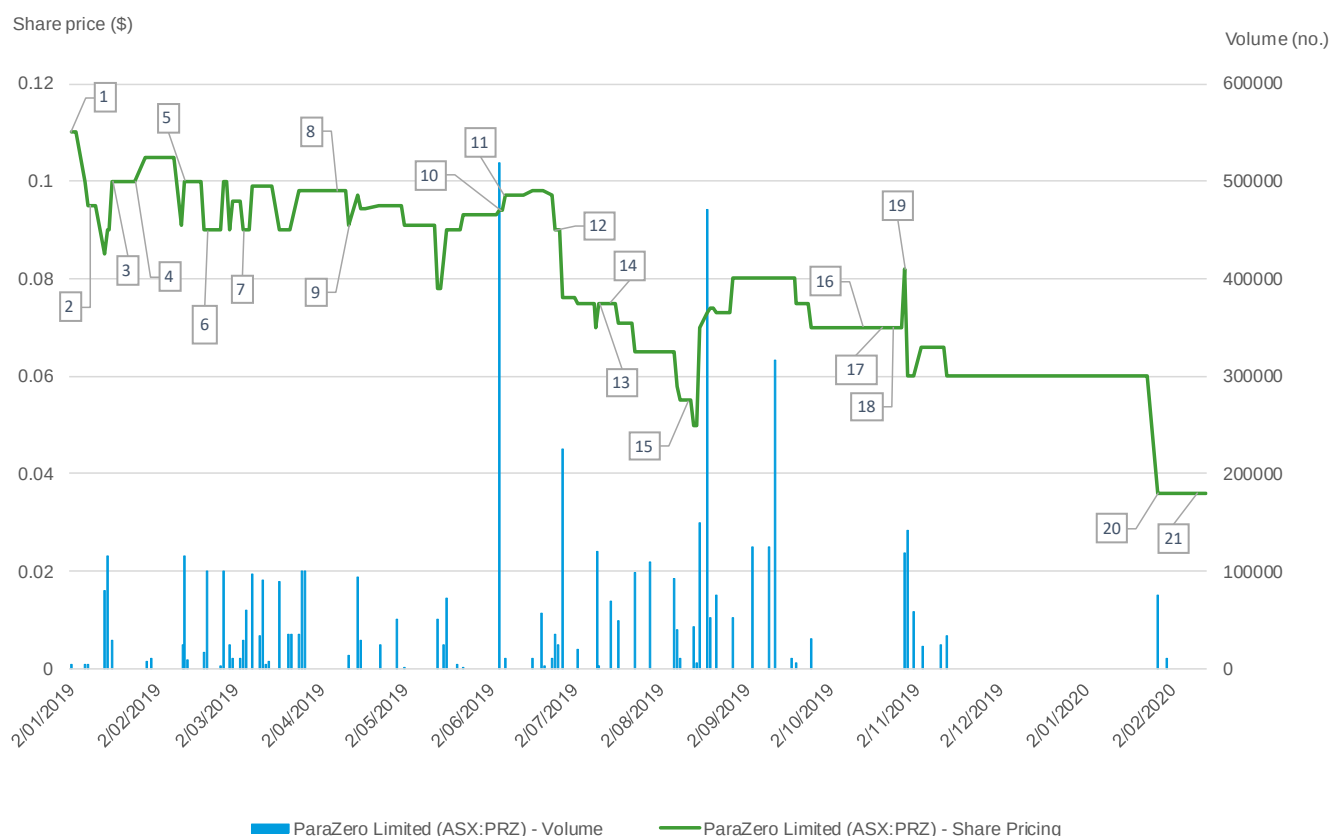


Chart 2: ParaZero traded share price and volume chart

5.34 Over the period above, ParaZero's shares have traded from a high of \$0.11 (first reached on 2 January 2019) to a low of \$0.036 (first reached on 28 January 2020).

5.35 Notable dates with regards to movements in share price and volumes traded include:

1. On 2 January 2019, the Company announced the appointment of Mr Chris Singleton to the Board of Directors.
2. On 10 January 2019, the Company announced the launch of its latest autonomous drone safety system, SafeAir™ Phantom. The SafeAir™ Phantom provides a solution for consumers, ensuring the safety of their drone and reducing the risk of accidents and lawsuits. The SafeAir™ Phantom is to be sold in Australia and Europe through distribution partners, and available in the United States through retailers, distributors and online.
3. On 21 January 2019, the Company announced that the Federal Aviation Administration ("FAA") had unveiled a set of proposed regulations which would allow routine flights over people and at night, with appropriate safety precautions. These proposed regulations would dramatically expand the commercial drone industry.

4. On 24 January 2019, the Company announced the acceptance of its pro-rata non-renounceable rights offer for 1 new share for every 3 existing shares held by eligible shareholders at an issue price of \$0.10 per share to raise approximately \$2,927,694 (before costs) ("Entitlement Offer"), that opened on 4 January 2019. The Company advised that the Entitlement Offer raised \$46,240.90 from eligible shareholders. With the partial underwriting of \$800,000, a total of \$846,240.90 (before costs) was raised. ParaZero also announced that the Company had the capacity to raise \$2,081,454.40 under the shortfall offer ("Shortfall Offer"), which would remain open for up to three months following the closing date of the Entitlement Offer, being 21 January 2019. On 22 March 2019, the Company announced the Shortfall Offer was closed on 21 March 2019 with no further funds raised under the Entitlement Offer.
5. On 14 February 2019, the Company entered into a new distribution agreement with HRP Group in Hungary as it looks to expand its presence within the European drone market.
6. On 19 February 2019, the Company announced that it was the first company to comply with Slovenia's Unmanned Aerial System ("UAS") regulations with its SafeAir system fitted to the DJI Phantom 4 model drone.
7. On 7 March 2019, the Company achieved compliance with new ASTM industry standard F3322-18 and announced that this compliance was expected to enable operational waivers for flight over people for commercial UAS operators. The Company also announced that ParaZero's SafeAir Phantom was the only safety system in the world to comply with the new ASTM standard.
8. On 10 April 2019, the Company placed its shares in trading halt, pending the release of an announcement.
9. On 12 April 2019, the Company announced that it had received binding commitments from institutional and sophisticated investors for a placement of \$1.54m (before costs), which would be completed by way of a two-tranche placement. The first tranche would be issued under the Company's existing ASX Listing Rule 7.1 placement capacity to issue 10,300,000 shares at \$0.075 per share, together with an attaching unlisted share option for every 10.78 shares issued, exercisable at \$0.1125 per option and expiring five years from the date of issue. The first tranche shares were issued on 17 April 2019.

The issue of the second tranche of shares was subject to shareholder approval at the Company's AGM of shareholders that was to be held in May 2019, to issue 10,279,189 shares at \$0.075 per share, together with an attaching unlisted share option for every 10.78 shares issued, also exercisable at \$0.1125 per option and expiring five years from the date of issue. The issue of the second tranche of shares was approved by shareholders and issued on 24 June 2019.

10. On 5 June 2019, the Company announced that the FAA had approved a waiver that allowed the general contractor, Hansel Phelps, to fly over people using the ParaZero's ASTM compliant SafeAir Phantom Parachute System installed on a DJI Phantom 4 model photography drone. This certificate of waiver is effective from 1 June 2019 to 30 June 2023. On 17 June 2019, the Company announced that Beverly Hills Aerials, a cinematograph company secured a similar waiver. The waiver for Beverly Hills Aerials also included a clause that allows the company to operate drones over moving vehicles on closed-set sites (while flight over moving vehicles is often excluded from waivers from flight over people).
11. On 7 June 2019, the Company announced that, together with the Northern Plains UAS Test Site, it completed the testing and compliance process for ParaZero's SafeAir Mavic in accordance with ASTM F3322-18. ASTM F3322-18 Standard Specification for UAS Parachutes was designed to enable civil aviation authorities ("CAAs"), such as the FAA, to determine whether a parachute system is airworthy for flight over human beings. ParaZero's ASTM compliant SafeAir Mavic is designed specifically for the DJI Mavic 2 model series, a drone adopted by various industries and security forces.
12. On 26 June 2019, the Company announced that the North Dakota Department of Transportation had secured a FAA waiver for operations over people using ParaZero's SafeAir Mavic + ATSM Professional Kit.

13. On 11 July 2019, the Company announced its fifth FAA waiver in five weeks. The Company considered this signals that the commercial drone industry was building momentum and the Company was demonstrating the scalability and successful commercialisation of its ASTM compliant solution for safe and compliant flights over people.
14. On 15 July 2019, the Company announced that its ASTM compliant SafeAir Systems for the SJI Phantom 4 Series and DJI Mavic Series complied with the latest Transport Canada regulations for operations over people.
15. On 13 August 2019, the Company responded to an ASX Query regarding whether the Company would have sufficient cash to continue funding its operations. In its formal response, the Company stated that it expected the operating cash flows to remain negative for the next 12 months. Despite the several market announcements about the increasing number of waivers being granted for flight over people, the growth of this wider acceptance had not progressed as fast as anticipated by ParaZero.
16. On 16 October 2019, the Company advised that its agreement with Foundation Markets Inc. ("FMI") announced on 17 July 2019, had been terminated. The Company had originally engaged FMI in connection with a proposed dual listing of its shares on a Canadian stock exchange and to complete a private placement to secure additional funding. The Company's securities were also placed in trading halt at the request of ParaZero, pending the release of an announcement.
17. On 23 October 2019, the Company announced that it secured firm orders of US\$235k from international drone manufacturers for custom parachute machines.

On 24 October 2019, the Company announced that it received binding commitments from institutional and sophisticated investors for a placement of AU\$642k (before costs), which were to be completed by way of a two-tranche placement. In addition, the suspension of trading in the Company's shares was lifted on 24 October 2019.

On 5 November 2019, the Company announced that the placement had been completed in a single tranche placement, comprising the issue of 10,219,999 shares at \$0.06 per share to raise \$613k (US\$420k) (before costs), together with 1 attaching unlisted option for every 10.78 shares issued, exercisable at \$0.09 per option and expiring five years from the date of issue.

18. On 29 October 2019, the Company released an Activity Report, which stated that ParaZero posted record revenue for the quarter ended 30 September 2019.
19. On 30 January 2020, the Company released its December 2019 quarterly report, recording cash receipts of US\$481 and total operating outflows of US\$782k. The Company stated that it expected its cash outflows in the March quarter to be in line with the December quarter.
20. On 14 February 2020, the Company's shares were placed in a trading halt. The shares remain suspended, following the announcement of the Proposed Transaction on 12 March 2020.

5.36 We note that after the Company's shares were released from suspension on 24 October 2019, shares were traded on only six days between 29 October 2019 to 13 November 2019, with the share price falling from \$0.082 on 29 October 2019 to \$0.06 on 13 November 2019. Thereafter, the Company's shares were only traded on 28 January 2020 and 31 January 2020, with a closing share price of \$0.036. No shares were traded between 31 January and the trading halt announced on 14 February 2020.

6. Profile of Delta Drone South Africa

Background

- 6.1 Delta Drone South Africa is a wholly owned subsidiary of Delta Drone SA (ENXTPA:ALDR). Delta Drone South Africa is headquartered in Johannesburg, South Africa and specialises in the provision of outsourced drone services for commercial use, primarily for mining and agricultural companies. The Delta Drone South Africa group operates in South Africa, Ghana and Namibia.
- 6.2 DDSA has the following subsidiaries:
- Rocketmine South Africa (Pty) Ltd (Rocketmine) (74% interest);
 - Rocketmine Limited (“Rocketmine Ghana”) (90% interest); and
 - Drone Safety and Legal (Pty) Ltd (“DSL”) (100% interest).
- 6.3 Under the Rocketmine operations, DDSA offers a range of services including aerial surveying and mapping, security and surveillance, and blast monitoring and fragment analysis. DDSA derives the majority of its revenue from providing outsourced drone services and technology solutions to mining and agricultural companies under contracts of three to five years.
- 6.4 Mr Christopher Clarke is the Managing Director for Delta Drone South Africa and will be appointed ParaZero’s Chief Executive Officer if the Proposed Transaction is approved.

Financial information

- 6.5 The information in the following section provides a summary of the consolidated financial performance and financial position of Delta Drone South Africa for the years ended 31 December 2017 (FY17), 31 December 2018 (FY18) and 31 December 2019 (FY19), and the half-year ended 30 June 2020 (HY20), extracted from audited and reviewed financial statements, as applicable.
- 6.6 Delta Drone South Africa’s functional and presentation currency is the South African Rand. The financial information presented in this Report has been translated to US\$ for consistency with the presentation of ParaZero’s financial information.
- 6.7 The consolidated financial performance has been translated from South African Rand (ZAR) to US\$ using the average daily foreign exchange rates for each of the financial years as published by Capital IQ and summarised as follows:
- FY17: 0.0752;
 - FY18: 0.0760;
 - FY19: 0.0693; and
 - HY20: 0.0605.
- 6.8 The consolidated financial position has been translated from ZAR to US\$ using the spot foreign exchange rates as at each financial year or period end, as published by Capital IQ and summarised as follows:
- 31 December 2017: 0.0808;
 - 31 December 2018: 0.0695;
 - 31 December 2019: 0.0715; and
 - 30 June 2020: 0.0576.

Financial performance

6.9 The following table sets out a summary of the consolidated financial performance of Delta Drone for FY17, FY18, FY19 and HY20.

Delta Drone South Africa (Pty) Ltd Historical Financial Performance (USD)		FY17 Audited US\$'000	FY18 Audited US\$'000	FY19 Audited US\$'000	HY20 Reviewed US\$'000
	Note				
Revenue	6.11	909	2,138	2,450	1,069
Cost of sales		(396)	(1,049)	(1,065)	(456)
Gross profit		514	1,089	1,385	613
Other income		22	15	98	47
Operating expenses	6.12	(826)	(1,241)	(1,220)	(277)
EBITDA	6.10	(290)	(138)	263	382
Depreciation and amortisation		(209)	(187)	(155)	(237)
EBIT		(499)	(325)	108	145
Investment revenue	6.13	2	2	26	11
Finance costs	6.14	(35)	(12)	(11)	(4)
Profit/(loss) before taxation	6.15	(533)	(335)	123	152
Taxation		88	48	(14)	(43)
Profit/(loss) for the year		(444)	(287)	110	109
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Exchange gains/(losses) on translating foreign operations		7	(7)	(9)	13
Total comprehensive profit/loss for the period		(438)	(294)	100	122
Profit/(loss) attributable to:					
Owners of Delta Drone South Africa Ltd & its subsidiaries		(451)	(302)	89	68
Non-controlling interest		6	15	20	41
		(444)	(287)	110	109
Total comprehensive profit/(loss) attributable to:					
Owners of Delta Drone South Africa Ltd & its subsidiaries		(444)	(309)	80	81
Non-controlling interest		6	15	20	41
		(438)	(294)	100	122

Source: Delta Drone South Africa audited and reviewed financial statements

Table 9: Delta Drone South Africa Financial Performance

- 6.10 Delta Drone South Africa disclosed losses at the EBITDA level for FY17 and FY18, and earnings at the EBITDA level of US\$263k and US\$382k for FY19 and HY20, respectively. DDSA is in the early growth phase of its business cycle, having successfully won market share in the agricultural and mining sectors and operating profitably from FY19.
- 6.11 DDSA disclosed total revenue of US\$2.5m and US\$1.1m for FY19 and HY20, respectively. Based on the HY20 financial performance, Delta Drone's total revenue is expected to be relatively consistent with that disclosed for FY19, albeit revenue has been impacted by the weakening of the South African Rand to the US dollar for HY20 compared to FY19.
- 6.12 Operating expenses primarily comprised employee costs, consulting services, occupancy costs and other general administrative expenses.
- 6.13 Investment revenue comprised bank interest income.

- 6.14 Finance costs primarily comprise interest in lease liabilities as well as bank interest expenses.
- 6.15 Delta Drone South Africa disclosed losses before tax of US\$533k and \$335k for FY17 and FY18, and profits before tax of US\$123k and US\$152k for FY19 and HY20, respectively.

Financial position

- 6.16 The table below sets out a summary of the consolidated financial position of Delta Drone as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020.

Delta Drone South Africa Ltd Historical Financial Position (USD)	Note	As at 31-Dec-17 Audited US\$'000	As at 31-Dec-18 Audited US\$'000	As at 31-Dec-19 Audited US\$'000	As at 30-Jun-20 Reviewed US\$'000
Current assets					
Cash and cash equivalents		120	249	551	565
Trade and other receivables		425	777	435	289
Inventories		2	1	12	27
Current tax receivable		1	20	45	26
Loans to group companies		-	52	-	-
Total current assets		547	1,099	1,043	907
Non-current assets					
Property, plant and equipment	6.20	245	465	402	255
Goodwill	6.21	530	456	469	378
Intangible assets	6.21	289	121	61	35
Right-of-use assets		177	149	142	92
Deferred tax		-	39	39	37
Total non-current assets		1,240	1,230	1,114	797
Total assets		1,788	2,329	2,157	1,704
Current liabilities					
Trade and other payables		95	179	75	21
Loans from group companies	6.22	1,936	2,644	2,356	1,799
Finance lease liabilities		23	36	61	39
Current tax payable		6	-	-	1
Total current liabilities		2,061	2,860	2,492	1,860
Non-current liabilities					
Lease liabilities		158	124	98	67
Deferred tax		19	-	-	10
Total non-current liabilities		176	124	98	77
Total liabilities		2,237	2,984	2,590	1,937
Net assets	6.17	(449)	(655)	(433)	(232)
Equity attributable to Equity holders of parent					
Share capital	6.18	0	0	832	671
Reserves	6.19	7	(0)	(704)	(555)
Accumulated losses		(466)	(640)	(566)	(392)
		(458)	(640)	(438)	(276)
Non-controlling interest		9	(15)	5	43
Total equity	6.17	(449)	(655)	(433)	(232)

Source: Delta Drone South Africa audited and reviewed financial statements

Table 10: Delta Drone South Africa Financial Position

- 6.17 DDSA disclosed net liabilities of US\$449k, US\$655k, US\$433k and US\$232k at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, respectively. The overall decline in net liabilities was due primarily to the increasing profitability of Delta Drone South Africa, as well as additional shares issued.
- 6.18 In addition to profits generated for FY19 and HY20, Delta Drone South Africa also recognised ZAR11.6m in share capital at 31 December 2019 and 30 June 2020, compared to ZAR1k at 31 December 2018 and 31 December 2017. The ZAR11.6m funding was provided by Delta Drone SA via an allotment of additional shares to Delta Drone SA. For simplicity, the financial position has been translated to US\$ at the relevant spot foreign exchange rate as at each year/period end and has not been adjusted for foreign exchange translation gains or losses resulting from the movement in the ZAR/US\$ exchange rate as at each financial year/period end.
- 6.19 The increase in reserves as at 31 December 2019 and 30 June 2020 was due primarily to a restructuring reserve of ZAR9.7m (circa US\$695k based on the spot foreign exchange reserve at 31 December 2019), recognised in relation to the acquisition of an additional 51% interest in DSL on 21 January 2019, resulting in Delta Drone South Africa holding a 100% interest in DSL. In addition to the restructuring reserve, reserves also include a foreign currency translation reserve.
- 6.20 Property, plant and equipment relates primarily to drones and drone accessories, IT equipment, leasehold improvements, and furniture.
- 6.21 Goodwill relates to the goodwill recognised for the acquisitions of Rocketmine and Rocketmine Ghana in FY17. Similarly, intangible assets comprising brand names, licenses to operate, client contracts and relationships, and domain, manuals and processes relate to intangible assets recognised for the acquisitions of Rocketmine and Rocketmine Ghana, and are recognised at cost less accumulated amortisation.
- 6.22 As at 30 June 2020, loans from group companies totalled US\$1.8m, which represented a loan due to Delta Drone SA.
- 6.23 Total borrowings disclosed by DDSA will not form part of the Proposed Transaction. However, cash disclosed by DDSA of US\$565k will form part of the Proposed Transaction.

7. Valuation Approach

Basis of Valuation

- 7.1 The valuation of a ParaZero share prior to, and immediately after the Proposed Transaction has been prepared on the basis of Fair Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

Valuation methodologies

- 7.2 In assessing the value of a ParaZero share prior to and immediately following the Proposed Transaction, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 7.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows:
- Market Based Methods;
 - Income Based Methods; and
 - Asset Based Methods.

Market based methods

- 7.4 Market based methods estimate the Market Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include;
- the quoted price for listed securities; and
 - industry specific methods.
- 7.5 The recent quoted price for listed securities method provides evidence of the fair value of a company's securities where they are publicly traded in an informed and liquid market.
- 7.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the fair market value of a company than other market-based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 7.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:
- capitalisation of maintainable earnings; and
 - discounted cash flow (DCF) methods.
- 7.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.
- 7.9 The capitalisation of earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("FME") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

- 7.10 Asset based methodologies estimate the Market Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
 - liquidation of assets method; and
 - net assets on a going concern basis.
- 7.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 7.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame.
- 7.13 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

Selection of Valuation Methodologies

Valuation of a ParaZero share prior to the Proposed Transaction

- 7.14 Income based methods are appropriate where earnings of the business are maintainable and sufficient to justify a value exceeding the value of the underlying assets.
- 7.15 ParaZero disclosed losses before income tax for each of the FY17, FY18 and FY19 financial years and for HY20, and has actively sought funding to fund existing business activities. As a result, and in accordance with RG 111, we have not utilised an income-based methodology in our assessment of the Fair Value of a ParaZero share.

- 7.16 In assessing the Fair Value of a ParaZero share, we have, therefore, utilised the net assets on a going concern basis as our primary valuation methodology. In utilising this methodology, we have relied upon the net book value of assets and liabilities as set out in ParaZero's reviewed financial statements as at 30 June 2020, adjusted for certain pro forma adjustments and material movements in the balance sheet to the date of this Report.
- 7.17 We have also considered the quoted market price methodology as a secondary valuation methodology. ParaZero's shares are listed on the ASX which means there is a regulated and observable market for its shares. However, consideration must be paid to adequate liquidity and activity in order to rely on the quoted market price method. As set out in further detail in Section 8, we do not consider it appropriate to rely on the quoted market price methodology as a secondary valuation methodology.

Valuation of a ParaZero share immediately after the Proposed Transaction

- 7.18 In order to assess the Fair Value of a ParaZero share immediately after the Proposed Transaction, it is necessary to consider the Company's value utilising a sum of parts methodology:
- we have assessed the Fair Value of Delta Drone South Africa being acquired by ParaZero, utilising the capitalisation of FME methodology; and
 - consistent with our methodology prior to the Proposed Transaction, we have valued ParaZero (excluding DDSA to be acquired), using the net assets on a going concern methodology.
- 7.19 As the approval of the Proposed Transaction will result in the decrease of Non-Associated Shareholders' interest in ParaZero from 93.4% to between 27.4% to 29.8% (on an undiluted basis) post the Proposed Transaction, in accordance with RG 111, we have ascribed a discount for lack of control to the value of a ParaZero share immediately after the Proposed Transaction.
- 7.20 Whilst we have been provided with financial forecasts prepared by Delta Drone South Africa for the three years ending 31 December 2022, RG 111 states that an expert should not include prospective financial information (including forecasts and projections) or any other statements or assumptions about future matters (together, 'forward-looking information') in its report unless there are reasonable grounds for the forward-looking information.
- 7.21 Regulatory Guide 170 Prospective financial information ("RG 170") gives detailed guidance on what is considered a reasonable basis for stating prospective financial information. While RG 170 is expressed to apply to fundraising documents under Chapters 6 and 7 of the Corporations Act, it provides useful guidance for inclusion of prospective financial information in expert reports.
- 7.22 RG 170 states that indicative factors that may amount to reasonable grounds for stating prospective financial information include when:
- the information relates to options on forward-sales contracts or leases that lock in future expenses and revenue;
 - the information is underpinned by independent industry experts' reports and/or independent accountants' reports; and
 - the information includes reasonable short-term estimates (not exceeding two years).
- 7.23 The financial forecasts prepared by DDSA are based on revenue that is not locked in. Accordingly, these financial forecasts have not been included in this Report.

8. Valuation of the Company prior to the Proposed Transaction

- 8.1 The basis of our evaluation of “fairness” is to compare the Fair Value of a ParaZero share prior to, and immediately after the Proposed Transaction.

Valuation of a ParaZero share prior to the Proposed Transaction (on a controlling basis)

- 8.2 As stated in Section 7, we have assessed the Fair Value of a ParaZero share using the net assets on a going concern basis methodology and relied upon the net book value of assets and liabilities as set out in ParaZero’s reviewed statement of financial position at 30 June 2020, adjusted for material movements in the balance sheet, primarily comprising the conversion of the First Tranche Notes, the issue of the remaining \$800k in Second Tranche and Third Tranche Notes, and movements in the Company’s cash position to 22 September 2020.
- 8.3 We have also had regard to research and development expenses incurred by the Company over the last three financial years and HY20 in our assessment of the Fair Value of a ParaZero share. We consider the expenses incurred from FY17 to HY20 to be reasonably reflective of expenses necessarily incurred to facilitate the development and commercialisation of the current SafeAir™ system.
- 8.4 Our assessment of the Fair Value of a ParaZero share prior to the Proposed Transaction is set out below.

ParaZero Limited	As at 30-Jun-20 Reviewed US\$'000	Note	Adjustments US\$'000	Assessed Value Prior to the Proposed Transaction US\$'000
Current assets				
Cash and cash equivalents	123	8.6	38	160
Trade and other receivables	123		-	123
Inventory	700		-	700
Total current assets	946		38	983
Non-current assets				
Plant and equipment	70		-	70
Intangible assets	-	8.7	3,199	3,199
Total non-current assets	70		3,199	3,269
Total assets	1,015		3,237	4,252
Current liabilities				
Trade and other payables	239		-	239
Credit and current maturities of long-term loans	26		-	26
Other financial liabilities	82		-	82
Convertible notes	582	8.6	144	726
Potential dilutionary impact of options	-	8.8	127	127
Total current liabilities	930		271	1,201
Non-current liabilities				
Other financial liabilities	177		-	177
Total non-current liabilities	177		-	177
Total liabilities	1,107		271	1,378
Net assets	(91)		2,965	2,874
Number of shares on issue ('000)	127,275	8.6	11,807	139,082
Assessed Fair Value per share (controlling basis)	US\$nil			US\$0.021

Source: Reviewed financial statements HY20 and RSM analysis

Table 11: Assessed Fair Value of a ParaZero share prior to the Proposed Transaction (controlling basis)

- 8.5 The assessment of the Fair Value of a ParaZero share prior to the Proposed Transaction is based on the pro forma consolidated balance sheet of the Company as at 30 June 2020.
- 8.6 We have adjusted ParaZero's balance sheet as at 30 June 2020 for the following:
- the conversion of the First Tranche Notes on 7 August 2020, comprising the conversion of \$644k (US\$408k) of First Tranche Notes to 11,806,672 new ordinary shares;
 - the issue of \$800k (circa US\$552k) in remaining Second Tranche and Third Tranche Notes; and
 - the decrease in the Company's cash position to circa US\$160k as at 22 September 2020.
- 8.7 We have also adjusted for intangible assets by US\$3.2m based on the following:
- ParaZero has not capitalised development expenditure in relation to the SafeAir system but has consistently incurred research and development expenditure to develop the monitoring and safety systems as well as the flight data analysis capabilities; and
 - we have been provided with a breakdown of the Company's historical research and development expenditure incurred for FY17, FY18, FY19 and HY20. Management considers that the expenditure over this period of \$3.2 million can be attributed to the overall development of the SafeAir system, and that whilst some new aftermarket products have been developed to replace older products, the existing capabilities of the software and algorithms remain in use. Accordingly, we have adjusted intangible assets to reflect the US\$3.2m incurred over FY17, FY18, FY19 and HY20.
- 8.8 As set out in Sections 3 and 5, ParaZero has 15,026,696 unlisted share options on issue. We have included the potential dilutionary impact of these options in our assessment of the Fair Value of a ParaZero share prior to the Proposed Transaction. Further detail on the assumptions and inputs we have used to value the potential dilutionary impact of the unlisted options is set out in Appendix E.
- 8.9 Based on the above, our assessed value of a ParaZero share prior to the Proposed Transaction (on a controlling basis) is US\$0.021.
- 8.10 The value of a ParaZero share prior to the Proposed Transaction is the value of a share on a controlling basis. The net assets on a going concern methodology applied represents the value of a controlling shareholding. Accordingly, we consider no further premium is considered necessary to assess the value of ParaZero prior to the Proposed Transaction.

Quoted Price of Listed Securities

- 8.11 In order to provide a comparison and cross-check to our valuation of a ParaZero share under the net assets methodology, we have considered the recent quoted market price of ParaZero shares prior to the announcement of the Proposed Transaction.
- 8.12 RG 111.69 indicates that for the quoted market share price methodology to represent a reliable indicator of Market Value, there needs to be an active and liquid market for the securities. The following characteristics may be considered to be representative of a liquid and active market:
- regular trading in the company's securities;
 - approximately 1% of a company's securities traded on a weekly basis;
 - the bid/ask spread of a company's shares must not be so great that a single majority trade can significantly affect the market capitalisation of the company; and
 - there are no significant but unexplained movements in the share price.

- 8.13 The Proposed Transaction was announced on 12 March 2020. However, prior to the announcement of the Proposed Transaction, the Company's shares were placed in a trading halt on 14 February 2020, pending the announcement of the Proposed Transaction. Notwithstanding the trading halt, the Company's shares had last previously traded on 31 January 2020.
- 8.14 To provide further analysis of the quoted market prices for ParaZero's shares, we have considered the volume weighted average share price (VWAP) over a number of trading day periods prior to 31 January 2020. An analysis of the volume in trading in ParaZero's shares for the 5, 10, 30, 60, 90, 120, 180 and 360-day trading periods is set out in the following table.

Calendar days	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
5 days	0.036	0.060	1	75,000	2,700	0.036	0.06%
10 days	0.036	0.060	1	75,000	2,700	0.036	0.06%
30 days	0.036	0.060	1	75,000	2,700	0.036	0.06%
60 days	0.036	0.060	1	75,000	2,700	0.036	0.06%
90 days	0.036	0.066	4	155,130	7,786	0.050	0.12%
120 days	0.036	0.082	7	476,020	29,671	0.062	0.38%
180 days	0.036	0.082	23	2,084,240	148,339	0.071	1.71%
365 days	0.036	0.105	71	4,819,310	390,236	0.081	4.25%

Source: Capital IQ and RSM analysis

Table 12: Traded volume of ParaZero shares prior to 31 January 2020

- 8.15 We note the following:

- over the 60-day period prior to 31 January 2020, the Company's shares traded on just one additional day, being 28 January 2020 with the share price closing at \$0.036;
- over the 90-day period, the Company's shares traded on just four days with a high of \$0.066 and a low of \$0.036, and a VWAP of \$0.050. During the 90-day period where shares traded in the range of \$0.036 to \$0.066 per share, the Company announced the completion of a placement to raise \$613k (US\$420k) at \$0.06 per share on 5 November 2019 (refer paragraph 5.35(17));
- only 1.71% and 4.25% of the Company's quoted shares were traded in the 180 and 365-day trading period prior to 31 January 2020, respectively;
- during the 365-day trading period, the Company raised \$1.54m (before costs) at \$0.075 per share in two tranches on 17 April 2019 and 24 June 2019, as well as raised \$846k (before costs) via the Entitlement Offer (refer paragraphs 5.35(4) and 5.35(9)). The VWAP over the same trading period was \$0.081;
- the bid/ask spread is often used to measure efficiency. For the 180-day period, the closing bid/ask spread of ParaZero averaged 21.9% of the midpoint price. On the basis that, over a comparable period, all stocks trading on the ASX had an average bid/ask spread of 0.205%¹, we consider the bid/ask spread of ParaZero to be large;
- given the Company's lack of liquidity in the period prior to the announcement of the Proposed Transaction, we consider that the Company's share price may not be reflective of ParaZero's Fair Value; and

¹ Equity market data for the quarter ended 31 September 2019 – ASIC

- the Company's shares will remain suspended until the ASX is satisfied that all relevant information required under *Guidance Note 12: Change to Activities has been announced to the market*, and until the Company has complied with Chapters 1 and 2 of the Listing Rules, including undertaking the Proposed Capital Raising as part of the Proposed Transaction. Accordingly, we do not consider that ParaZero's shares currently have an active market to enable shareholders to realise their investment.

8.17 Based on the above, we have not utilised the quoted market price of ParaZero shares in our assessment of the Fair Value of a ParaZero share.

9. Valuation of the Company immediately after the Proposed Transaction

9.1 We have assessed the Fair Value of ParaZero immediately after the Proposed Transaction utilising a sum of the parts methodology.

Fair Value of Delta Drone South Africa

9.2 We have assessed the Fair Value of DDSA on a controlling basis using the Capitalisation of FME methodology.

9.3 The table below sets out our assessment of the Fair Value of DDSA on a 100% equity interest basis.

Delta Drone South Africa Valuation summary	Ref	Low US'000	High US'000	Preferred US'000
FME (assessed at the EBITDA level)	9.8	700	700	700
Assessed EBITDA multiple (including a control premium)	9.22	5.00	6.00	5.50
Enterprise Value (100% interest)		3,500	4,200	3,850
Add: net cash	9.26	565	565	565
Equity Value (100% interest)		4,065	4,765	4,415

Source: RSM analysis

Table 13: Assessed Fair Value of Delta Drone South Africa (Capitalisation of FME methodology)

9.4 We have assessed the Equity Value of DDSA to range from US\$4.1m to US\$4.8m, with a preferred value of US\$4.4m.

9.5 We have considered and determined the following variables when assessing the Fair Value of DDSA:

- future maintainable earnings;
- appropriate capitalisation multiple;
- comparable transaction multiples;
- current level of net cash/debt;
- working capital requirements;
- value of surplus assets; and
- appropriate premium for control.

Future Maintainable Earnings

9.6 We have adopted EBITDA as an appropriate measure of FME because multiples based on the EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on other earnings measures such as EBIT or NPAT. In our opinion, this approach allows a better comparison with earnings multiples of other companies.

9.7 In assessing DDSA's FME, we have considered the following:

- DDSA's audited financial performance for FY17 to FY19;
- DDSA's reviewed financial performance for HY20;
- our review of abnormal or non-recurring profit and loss items and other normalisation adjustments;
- our review of forecast financial information;
- the market conditions and outlook of the industry DDSA operates in;
- the overall increase in EBITDA from loss-making at the EBITDA level for FY17 and FY18, to positive earnings at the EBITDA level for FY19 and HY20;
- the overall increase in EBITDA margins for HY20 to circa 36%, and forecast to be 25% for FY20; and circa 26% for the forecast financial performance for FY21 and FY22; and
- our discussions with Management.

9.8 On the above basis, we have adopted a future maintainable EBITDA for DDSA of US\$700k.

Capitalisation multiple

9.9 In selecting an appropriate EBITDA multiple to value DDSA, we have considered the EBITDA and revenue multiples of publicly listed comparable companies whose operations are sufficiently comparable to DDSA. A brief description of each of the companies is set out in Appendix D.

Delta Drone South Africa Comparable companies	Country	Net Assets US\$m	Turnover US\$m	Forecast Revenue US\$m	Historical EBITDA US\$m	Forecast EBITDA US\$m	Market Cap. US\$m	Net Debt US\$m	Enterprise Value US\$m	Ratios		Ratios	
										Historical EV	Forecast EV	Historical EV	Forecast EV
										EBITDA (times)	EBITDA (times)	Revenue (times)	Revenue (times)
Delta Drone SA	France	7.8	21.7	-	(6.2)	-	21.2	1.7	22.9	NM	NA	1.1	NA
Autonomous Control Systems Laboratory Ltd.**	Japan	44.7	11.6	13.3	0.1	-	294.0	(32.3)	261.7	5,128.6	NA	22.5	19.7
Vertex Resource Group Ltd.	Canada	34.8	111.0	137.2	11.7	19.8	15.1	65.7	80.9	6.9	4.1	0.7	0.6
CITIC Offshore Helicopter Co.,Ltd.	China	485.9	213.0	221.5	66.6	89.7	702.5	128.9	831.4	12.5	9.3	3.9	3.8
Drone Delivery Canada Corp.**	Canada	7.8	0.02	10.1	(10.2)	(3.6)	96.7	(4.7)	92.0	NM	NM	4,712.6	9.1
Drone Volt SA	France	9.8	8.0	-	(3.4)	-	57.5	5.7	63.2	NM	NA	7.9	NA
Global UAV Technologies Ltd.	Canada	(0.7)	0.9	-	(0.1)	-	0.5	(0.0)	0.5	NM	NA	0.6	NA
MRO-TEK Realty Limited***	India	-	5.6	-	0.3	-	5.5	6.6	12.1	37.1	NA	2.2	NA
Parrot S.A.	France	132.5	70.7	-	(38.3)	-	152.2	(108.4)	43.8	NM	NA	0.6	NA
UUV Aquabotix Limited	Australia	(0.1)	0.4	-	(1.2)	-	1.9	(0.2)	1.7	NM	NA	4.2	NA
Average										1,296.3	6.7	475.6	8.3
Median										24.8	6.7	3.0	6.4
Min										6.9	4.1	0.6	0.6
Max										5,128.6	9.3	4,712.6	19.7
Average (excluding outliers)										9.7	6.7	2.7	2.2
Median (excluding outliers)										9.7	6.7	1.6	2.2
Min (excluding outliers)										6.9	4.1	0.6	0.6
Max (excluding outliers)										12.5	9.3	7.9	3.8

Source: Capital IQ and RSM analysis

* NM - Not meaningful

* NA - Not available

** Excluded from both historical and forecast multiples

*** Excluded from historical EBITDA multiples

Table 14: Delta Drone South Africa summary of comparable company EBITDA and revenue multiples

- 9.10 Despite the significantly larger size of a number of the comparable companies relative to DDSA's operations, we note the majority of the companies are loss-making at the EBITDA level. This includes Delta Drone SA, DDSA's parent company.
- 9.11 Accordingly, we have also had regard to the historical and forecast revenue multiples disclosed by the comparable companies and considered the multiple of revenue as a cross check to our valuation of DDSA.
- 9.12 Based on our analysis, we consider an appropriate non-controlling comparable EBITDA multiple to be 6.5 times, relatively consistent with the forecast average and median EBITDA multiple (excluding outliers) as set out in Table 14 above.

Control premium

- 9.13 Obtaining control of an entity usually provides the acquirer with a number of advantages including the following:
- access to potential synergies;
 - control over decision making and strategic direction;
 - access to underlying cash flows; and
 - control over dividend policies.
- 9.14 In the case of publicly traded securities, given the advantages control of an entity provides an acquirer, they are usually expected to pay a premium to the quoted market price to achieve control, which is often referred to as a control premium. A control premium is the amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the premium a buyer will pay to acquire control in a business enterprise. Consequently, earnings multiples for listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 9.15 RSM has undertaken a survey of control premiums paid over a 5-year period to 30 June 2016 in 463 successful takeovers and schemes of arrangements of companies listed on the ASX ("RSM Control Premium Study 2017"). The findings are summarised in the table below, showing the average control premiums paid 20, 5 and 2 days prior to announcement of a transaction, which are applied at the equity level.

	Number of transactions	20 days pre	5 days pre	2 days pre
Average control premium - all industries	463	34.5%	28.3%	26.4%

Source: RSM Control Premium Study 2017

Table 15: Control Premium Study

- 9.16 Earnings multiples of listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 9.17 Premiums for control are considered to typically range from 25% to 35% which are applied at the equity value level.
- 9.18 On the above basis we have adopted a control premium of 20% to 25% for DDSA at the Enterprise Value level.

9.19 In calculating the appropriate EBITDA multiple for DDSA, we considered the following:

- DDSA is significantly smaller than a number of the publicly listed comparable companies with respect to revenue, albeit has generated profits at the EBITDA level whilst a number of the larger comparable companies are loss-making; and
- as a smaller business, DDSA inherently carries greater risk as it has less diversified revenue streams, less geographic diversifications, lack economies of scale, relatively less efficient processes and systems, and limited access to debt and equity markets.

9.20 On the above basis, we have assessed DDSA's discount for size and other business risk factors to be in the range of 25.0% to 35.0%.

9.21 The table below sets out our assessment of DDSA's EBITDA multiple.

Delta Drone South Africa Assessed EBITDA Multiple	Low	High	Preferred
Assessed EBITDA of comparable companies	6.50	6.50	6.50
Control premium	20.0%	25.0%	22.5%
EBITDA of comparable companies (controlling basis)	7.80	8.13	7.96
Discount for size and business risk factors	(35.0%)	(25.0%)	(30.0%)
Assessed EBITDA multiple	5.07	6.09	5.57
Say	5.00	6.00	5.50

Source: Capital IQ and RSM analysis

Table 16: Delta Drone South Africa assessed EBITDA multiple (controlling basis)

9.22 On the above basis, we have determined the valuation multiple of DDSA to be in the range of 5.00 to 6.00 times, with a preferred multiple of 5.50 times FME.

Comparable transactions

9.23 To cross-check our valuation of DDSA using the EBITDA multiples of publicly listed comparable companies, we have considered recent transactions involving companies whose operations and activities are comparable to DDSA.

9.24 We note, however, that whilst there are a number of completed comparable transactions announced to the market, publicly available information regarding the terms of the transactions has been limited. As a result, we have had regard to the acquisition of Rocketmine by Delta Drone SA which was transacted at circa 1.0 times revenue in February 2017.

Net debt

9.25 As set out in paragraph 6.23, total borrowings disclosed by DDSA of US\$1.8m at 30 June 2020 will not form part of the Proposed Transaction. However, cash disclosed by DDSA of US\$565k will form part of the Proposed Transaction

9.26 Accordingly, we have adjusted the Enterprise Value of DDSA for net cash of US\$565k in our assessment of the Fair Value of a 100% equity interest in DDSA.

Surplus assets

9.27 Based on our review of the audited and reviewed financial statements of Delta Drone South Africa, we consider that there were no assets surplus to DDSA's operations.

Implied revenue multiple cross-check

- 9.28 Due to the limited number of comparable forecast EBITDA multiples and details of comparable transactions, we have had regard to the implied revenue multiples based on our assessment of the Fair Value of DDSA at the Enterprise Value level.
- 9.29 As set out in Table 13, we have assessed the Enterprise Value of DDSA to be in the range of US\$3.5m to US\$4.2m, with a preferred value of US\$3.9m.
- 9.30 DDSA disclosed total revenue of US\$2.5m for FY19 and has forecast revenue of US\$2.7m for FY21 (based on existing operations in South Africa, Ghana and Namibia), resulting in an implied revenue multiple of 1.5 and 1.4 times historical FY19 and forecast FY21 revenue (on a controlling basis and at the preferred Enterprise Value of US\$3.9m), respectively.
- 9.31 Having regard to the median historical and forecast revenue multiples (excluding outliers) of the comparable listed companies of 1.6 and 2.2 times (on a non-controlling basis), respectively (refer Table 14), and Delta Drone's acquisitions of Rocketmine at an implied revenue multiple of circa 1.0 times (on a controlling basis), we consider the valuation of DDSA on an implied revenue multiple basis to be consistent with our assessment of an appropriate EBITDA multiple.

Valuation of ParaZero immediately after the Proposed Transaction (controlling basis)

- 9.32 We have assessed the value of ParaZero immediately after the Proposed Transaction as set out in the table below.

	Ref	Low US\$'000	High US\$'000	Preferred US\$'000
Assessed Equity Value of the Company	Table 11	2,874	2,874	2,874
Assessed Equity Value of Delta Drone South Africa	Table 13	4,065	4,765	4,415
Total Equity Value of Merged Group		6,939	7,639	7,289
Total number of shares in ParaZero immediately post the Proposed Transaction ('000)	Table 2	348,595	348,595	348,595
Assessed value per share (controlling basis)		US\$0.020	US\$0.022	US\$0.021

Source: RSM analysis

Table 17: Assessed value per share in ParaZero immediately after the Proposed Transaction (controlling basis)

- 9.33 As set out above, we consider the Fair Value of a ParaZero share (on a controlling basis), immediately after the Proposed Transaction to be in the range of US\$0.020 to US\$0.022, with a preferred value of US\$0.021.

Valuation of ParaZero immediately after the Proposed Transaction (non-controlling basis)

- 9.34 The table below sets out our assessment of the Fair Value of a ParaZero share immediately after the Proposed Transaction on a non-controlling basis.

	Ref	Low	High	Preferred
Fair Value per share (controlling interest)	Table 17	US\$0.020	US\$0.022	US\$0.021
Discount for non-controlling interest	9.36	(25.9%)	(23.1%)	(24.5%)
Fair Value per share immediately post the Proposed Transaction (non-controlling interest)		US\$0.015	US\$0.017	US\$0.016

Source: RSM analysis

Table 18: Assessed Fair Value per ParaZero share immediately after the Proposed Transaction (non-controlling basis)

- 9.35 A discount to reflect a non-controlling interest in an entity (minority interest) is the inverse of a control premium.
- 9.36 As per paragraph 9.17, premiums for control are considered to typically range from 25% to 35% at the equity value level. Having regard to ParaZero's capital structure, we consider a control premium in the range of 30% to 35%, the inverse of which has been presented in Table 18 above.
- 9.37 As set out above, we have assessed the Fair Value of a ParaZero share (on a non-controlling basis), to be in the range of US\$0.015 to US\$0.017, with a preferred value of US\$0.016.

10. Is the Proposed Transaction Fair?

- 10.1 In assessing whether we consider the Proposed Transaction to be fair to Non-Associated Shareholders, we have valued a share in ParaZero prior to (controlling basis), and immediately after (non-controlling basis) the Proposed Transaction to determine whether a Non-Associated Shareholder would be better or worse off should the Proposed Transaction be approved. Our assessed values are summarised in the table below.

	Ref	Low	High	Preferred
Fair Value per share prior to the Proposed Transaction (controlling basis)	Table 11	US\$0.021	US\$0.021	US\$0.021
Fair Value per share immediately after the Proposed Transaction (non-controlling basis)	Table 18	US\$0.015	US\$0.017	US\$0.016

Source: RSM analysis

Table 19: Valuation Summary

- 10.2 The above comparison is depicted graphically in the chart below.



Chart 3: Valuation summary graphical representation

- 10.3 In our opinion, as the Fair Value of a ParaZero share (on a non-controlling basis) immediately after the Proposed Transaction, is less than the Fair Value of a ParaZero share (on a controlling basis) prior to the Proposed Transaction, we consider the Proposed Transaction is **not fair** to the Non-Associated Shareholders of ParaZero.

11. Is the Proposed Transaction Reasonable?

11.1 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- the future prospects of ParaZero if the Proposed Transaction does not proceed;
- the trading of ParaZero shares following the announcement of the Proposed Transaction;
- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding; and
- alternative proposals to the Proposed Transaction.

Future prospects of ParaZero if the Proposed Transaction does not proceed

- 11.2 If the Proposed Transaction is not approved, the Company will apply to the ASX to have the suspension of its shares lifted and its shares reinstated to the ASX Official List.
- 11.3 For HY20, ParaZero disclosed losses before tax of US\$618k and operating cash outflows of US\$570k.
- 11.4 The reviewed financial statements for HY20 included an emphasis of matter in the independent auditor's report issued by BDO that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern. Whilst the auditor's opinion was not modified in respect of this matter, it was noted that ParaZero's ability to continue as a going concern was dependent on whether ParaZero could secure additional funding either through equity, debt or receipts from product sales, or a combination of all, to continue its operational and technology development activities.
- 11.5 Whilst Resolution 6 is not a Transaction Resolution, if Resolution 6 is not approved, the Second Tranche and Third Tranche Notes would not automatically convert to shares, and the Company would be required to seek alternative funding to support existing operations and fund the redemption of the Notes.
- 11.6 In the event that the Company is unable to raise additional funding as and when required, there is a risk that the Company may not be able to continue as a going concern.

Response of the Market to the Announcement of the Proposed Transaction

- 11.7 ParaZero's shares last traded on 31 January 2020 and closed at \$0.036. The Company's shares have also been suspended from quotation following the announcement of the Proposed Transaction on 12 March 2020. Accordingly, we have not been able to ascertain the market's reaction to the Proposed Transaction.

Advantages of approving the Proposed Transaction

- 11.8 The advantages of approving the Proposed Transaction are:
- the acquisition of DDSA would increase the scale of the Company which may result in increased investor interest and enhanced liquidity of the Company's shares for shareholders, and hence, a more efficient market for shareholders to dispose of their shareholdings;
 - the ongoing operating losses of the Company could be reduced as DDSA has historically generated an operating profit;
 - the acquisition of DDSA provides the Company with access to a range of other drone related technologies held by Delta Drone SA and could provide opportunities for the Company to expand the provision of its products and services to the mining and agricultural industries;

- the Proposed Transaction is contingent upon the Company successfully completing the Proposed Capital Raising to comply with Chapters 1 and 2 of the Listing Rules and raise sufficient capital to strengthen the Company's balance sheet. Furthermore, the Proposed Capital Raising is intended to contribute to the execution of the Company's business plan to accelerate the growth of its drone service business in Australia and target additional revenue from the Company's safety systems in the global OEM markets; and
- the Company would widen the geographical spread of existing business as the technological centre in Israel could provide solutions to service-based operations in Australia and Africa, along with existing sales to Europe and North America.

Effect of the Proposed Capital Raising

11.9 The table below sets out a pro-forma summary of the Fair Value of a ParaZero share in the event the Proposed Capital Raising is successful.

	Ref	Low US\$'000	High US\$'000	Preferred US\$'000
Assessed Equity Value of the Company	Table 11	2,874	2,874	2,874
Assessed Equity Value of Delta Drone South Africa	Table 13	4,065	4,765	4,415
Cash raised from Proposed Capital Raising	3.12	2,416	3,452	2,934
Less costs of capital raising	11.10	(145)	(207)	(176)
Pro-forma total Equity Value of Merged Group		9,210	10,884	10,047
Total number of shares in ParaZero immediately post the Proposed Transaction, including the Proposed Capital Raising ('000) (excluding the issue of Conversion Shares)	Table 3	436,095	473,595	454,845
Assessed pro-forma value per share (controlling basis)		US\$0.0211	US\$0.0230	US\$0.0221
Discount for non-controlling interest	9.36	(25.9%)	(23.1%)	(24.5%)
Assessed pro-forma Fair Value per share (non-controlling basis)		US\$0.016	US\$0.018	US\$0.017

Source: RSM analysis

Table 20: Pro-Forma Fair Value of a ParaZero Share immediately post Capital Raising

- 11.10 In the event the Proposed Transaction is approved, the Company will undertake the Proposed Capital Raising to raise a minimum of \$3.5m (circa US\$2.4m) and a maximum of \$5m (circa US\$3.5m). Management has assessed capital raising costs to be 6% of funds raised.
- 11.11 As set out in Table 3, the total number of ordinary shares in the Company would increase to 436,094,849 to 473,594,849 shares in the event the Proposed Capital Raising is completed.
- 11.12 The pro-forma Fair Value per share of ParaZero immediately after the Proposed Transaction and assuming the Proposed Capital Raising is successful is the value of a share on a non-controlling basis.

Disadvantages of approving the Proposed Transaction

11.13 The disadvantages of the Proposed Transaction are:

- the Proposed Transaction is not fair;
- the dilution of Non-Associated Shareholders' interests from 93.4% to between 27.4% to 29.8% immediately after the Proposed Transaction (assuming the completion of the Capital Raising);

- in the event the Performance Milestones are met as specified in paragraphs 3.5 to 3.8, Performance Shares will be issued to Delta Drone SA and Non-Associated Shareholders' interests would be further diluted;
- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals;
- the Company will be changing the nature and scale of its activities which may not be consistent with the objectives of Shareholders;
- the Company may need additional funding in the future to achieve its long-term goals and could result in further dilution at the time;
- the Company is incurring significant costs in relation to the Proposed Transaction, including lawyers, costs, advisors and experts. The Company will incur costs irrespective of whether or not the Proposed Transaction is successfully completed;
- there is no guarantee that the Company will successfully complete re-compliance or that ASX will approve the re-admission and re-quotation of the Shares of the Company upon passing all the Transaction Resolutions; and
- the Company will be exposed to additional geographical, regulatory, and foreign exchange risk as DDSA's operations are primarily based in South Africa, Ghana and Namibia.

Alternative proposals

11.14 We are not aware of any alternative proposal at the current time which might offer Non-Associated Shareholders a greater benefit than the Proposed Transaction.

Conclusion on Reasonableness

11.15 In our opinion, and in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act, we consider that the Proposed Transaction is **reasonable** for Non-Associated Shareholders.

11.16 An individual Shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

G YATES



Director

A CLIFFORD



Director



APPENDICES

A. DECLARATIONS AND DISCLAIMERS

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr Glyn Yates and Mr Andrew Clifford are directors of RSM Corporate Australia Pty Ltd. Both Mr Yates and Mr Clifford are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and Management of ParaZero Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Glyn Yates, Andrew Clifford, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$30,000, excluding GST, based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether ParaZero Limited receives Shareholder approval for the Proposed Transaction, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Statement to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Statement. Accordingly, we take no responsibility for the content of the Notice of Extraordinary General Meeting and Explanatory Statement.

B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting and Explanatory Statement;
- Draft and final copies of the Share Sale Agreement between Delta Drone SA (Seller) and ParaZero Ltd (Purchaser), in respect of Delta Drone South Africa;
- Audited financial statements for ParaZero for the three years ended 31 December 2019;
- Reviewed financial statements for ParaZero for the half-year ended 30 June 2020;
- Audited financial statements for Delta Drone South Africa for the two years ended 31 December 2019 (including prior year comparatives);
- Reviewed financial statements for Delta Drone South Africa for the half-year ended 30 June 2020;
- Share and options register of ParaZero as at 10 August 2020;
- ASX announcements of ParaZero;
- S&P Capital IQ database; and
- Discussions with Directors and Management.

C. GLOSSARY OF TERMS AND ABBREVIATIONS

Term or Abbreviation	Definition
\$ or A\$	Australian dollars
AFCA	Australian Financial Complaints Authority
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of ASX as amended from time to time
ASTM International	Formerly known as American Society for Testing and Materials, an international standards organisation that develops and publishes voluntary consensus technical standards for a wide range of materials, products, systems and services
BVLOS	Beyond Visual Line of Sight
CAA	Civil Aviation Authority
Company or ParaZero	ParaZero Limited
Consideration Shares	203,512,750 new Shares to be issued to Delta Drone SA in accordance with Resolution 4
Control or controlling basis	As assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
Control premium	An amount or percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control
Conversion Shares	27,205,882 Shares to be issued to Delta Drone SA to convert the Second Tranche Notes and Third Tranche Notes in accordance with Resolution 6 as set out in the Notice
Corporations Act or the Act	Corporations Act 2001 (Cth)
Delta Drone South Africa or DDSA	Delta Drone South Africa (Pty) Ltd
Discounted cash flow (DCF)	A method within the income approach which values a business as the present value of future expected cash flows and is calculated using a discount rate
Directors	Directors of the Company
DSL	Drone Safety and Legal (Pty) Ltd
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
EBITDA multiple	Enterprise Value divided by EBITDA
Enterprise Value (EV)	Enterprise Value of a business on a cash free basis, debt free basis
Equity Value	The owners' interest in a company after deduction of all liabilities
FAA	Federal Aviation Administration
Fair Value or Market Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
Future maintainable earnings (FME)	The normal maintainable earnings expected to be achieved in the future

Term or Abbreviation	Definition
FSG	Financial Services Guide
FYXX	Financial year ended 31 December 20XX
Going concern	An ongoing operating business enterprise
HY20	Half-year ended 30 June 2020
IER or Report	This Independent Expert Report
k	Thousands
m	Millions
Management	The management of ParaZero Limited
Merged Group	The assessed Fair Value of ParaZero immediately following the Proposed Transaction, comprising the combined values of ParaZero and Delta Drone South Africa
Minority interest (non-controlling interest)	A non-controlling ownership interest, generally less than 50% of a company's voting shares
Notice	The Notice of Extraordinary General Meeting and Explanatory Statement accompanying this IER
OEM	Original equipment manufacturers
Proposed Transaction	Resolutions 1, 2, 3, 4, 5, 7, and 8 as set out in the Notice. Resolutions 1, 2, 3, 4, 5, 7, and 8 are also defined as the Transaction Resolutions and are inter-dependent
ParaZero Israel	ParaZero Israel Ltd
Revenue multiple	Enterprise Value divided by revenue
RG 111	ASIC Regulatory Guide 111 – Content of expert reports
RG 112	ASIC Regulatory Guide 112 – Independence of experts
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ or Capital IQ	An entity of Standard and Poor's which is a third-party provider of company and other financial information
Share	Ordinary fully paid share in the capital of the Company
Shareholders or Non-Associated Shareholders	ParaZero shareholders who are not a party, or associated to a party, to the Proposed Transaction
SSA or Share Sale Agreement	Share Sale Agreement entered into between Delta Drone SA and ParaZero in respect of Delta Drone South Africa as defined in the Notice
Second Tranche Notes	\$500,000 in convertible notes issued to Delta Drone SA, convertible to shares at a conversion price of \$0.04 per share in accordance with Resolution 6 as set out in the Notice
Third Tranche Notes	\$500,000 in convertible notes issued to Delta Drone SA, convertible to shares at a conversion price of \$0.034 per share in accordance with Resolution 6 as set out in the Notice
Rocketmine	Rocketmine South Africa (Pty) Ltd
Rocketmine Ghana	Rocketmine Limited
UAS	Unmanned Aerial System
US\$	US dollars
VWAP	Volume weighted average share price
ZAR or Rand	South African Rand

D. COMPARABLE COMPANIES' DESCRIPTIONS

Delta Drone South Africa Comparable company	Description
Delta Drone SA	Delta Drone SA provides civilian drone services for professional use in France and internationally. The company offers laser imaging detection and ranging systems; radio frequency identification tag systems; drone cloud information systems; drone/UAV systems; Delta X, a helicopter-type drone; and Delta Y, a plane type fixed-wing UAV. It serves mines and quarries, industrial inspection, safety and security, agriculture and environment, hydrology, and entertainment industries. The company was founded in 2011 and is based in Dardilly, France.
Autonomous Control Systems Laboratory Ltd.	Autonomous Control Systems Laboratory Ltd. develops, produces, sells, and services industrial drones in Japan and internationally. It offers autonomous machines, including fully automated drones for various applications, such as delivery, inspection, disaster relief, and emerging use-cases. The company was founded in 1998 and is based in Tokyo, Japan.
Vertex Resource Group Ltd.	Vertex Resource Group Ltd. provides environmental, consulting and engineering services in Canada and the United States. It operates through two segments, Environmental Consulting and Environmental Services. The Environmental Consulting segment offers planning and regulatory approvals, site assessments and monitoring, geotechnical and civil engineering, wildlife management, reclamation, remediation, groundwater monitoring, drilling waste, gas migration, emissions testing and reporting, and well abandonment services; land and regulatory services; emergency spill response services; abandonment, completion, and drilling engineering; and geographical information services, and mapping and drone services to various industries, including energy, telecommunications, public sector, utilities, mining, and agriculture. The Environmental Services provides fluid management and logistics, vacuum, hydrovac, pressure testing, industrial cleaning, waste management bins and disposals, and wellsite accommodation services, as well as manufactures and installs metal buildings and acoustical products for energy, construction, mining, utilities, telecommunications, and forestry industries. Vertex Resource Group Ltd. was founded in 1962 and is headquartered in Sherwood Park, Canada.
CITIC Offshore Helicopter Co.,Ltd.	CITIC Offshore Helicopter Co.,Ltd. engages in offshore oil and general aviation development activities in China. The company provides sea navigation, aviation maintenance, aviation training, capital operation, and drone services. It has a fleet of approximately 70 helicopters. The company was formerly known as China National Offshore Helicopter Professional Company. CITIC Offshore Helicopter Co.,Ltd. was founded in 1983 and is headquartered in Shenzhen, China.
Drone Delivery Canada Corp.	Drone Delivery Canada Corp. designs, develops, and implements commercial drone-based logistics systems in Canada. The company offers drone delivery services consisting of Depot to Depot services, which focuses on rural applications providing services from warehouse to warehouse; and Depot to Consumer that offers logistics services from a retailer/warehouse direct to the consumers home or business location. It serves government, commercial, industrial, and retail customers. The company was incorporated in 2011 and is based in Vaughan, Canada.
Drone Volt SA	Drone Volt SA manufactures and sells professional civilian drones in France, Belgium, the Netherlands, Canada, Denmark, the United States, Switzerland, and Indonesia. The company offers commercial drones for various civilian applications, such as inspection, surveillance, surface treatment, thermography, search, and rescue missions in the energy, construction, security, and agricultural sectors. It also distributes DJI drones and multi-brand accessories for civil and commercial applications; and provides engineering consulting and design, aerial data acquisition, professional drone training, assistance, maintaining, and legal support services. The company serves various government administrations and industrial groups. It also exports its products. Drone Volt SA was founded in 2011 and is headquartered in Villepinte, France.

Delta Drone South Africa Comparable company	Description
Global UAV Technologies Ltd.	Global UAV Technologies Ltd., through its subsidiaries, operates as a diversified and vertically integrated drone technology company that sells unmanned aerial vehicle (UAV) equipment and provides UAV related services in Canada. It offers aerial images, and light detection and ranging surveys, including providing perspectives and images; and drone-based geophysical survey technology as a service for various industries and applications, such as mining and exploration, underground infrastructure detection, and unexploded ordnance detection. The company specializes in aeromagnetic surveys utilizing its proprietary, UAV-Mag system, an UAV supported geophysical survey system. It also holds a beyond visual line of sight (BVLOS) special flight operating certificate for BVLOS flights at the Foremost Alberta test range. In addition, the company designs, engineers, and manufactures single-rotor helicopter-style and multi-rotor unmanned aerial vehicles. The company was formerly known as Alta Vista Ventures Ltd. and changed its name to Global UAV Technologies Ltd. in May 2017. Global UAV Technologies Ltd. was founded in 1987 and is based in Vancouver, Canada.
MRO-TEK Realty Limited	MRO-TEK Realty Limited engages in the manufacture, supply, and distribution of access and networking equipment and solutions in India and internationally. The company operates through Products, Real Estate Development, EMS, and Solutions segments. Its products include time division multiplexer (TDM) products, including modems and converters, multi-service access products, Ethernet over PDH and SDH, PDH optical multiplexers, and TDM over packet; Ethernet products comprising media converters, managed media converters, and Ethernet powered switches; routers; switches; outdoor switches; and optical transport network switches, such as CWDM/DWDM, dispersion compensators, and amplifiers. The company also offers multi-service access, and GPON products; support services; and drone-enabled technologies and services for agriculture industry, as well as electronic manufacturing services. In addition, it provides planning, design, and implementation services for hardware-software infrastructure; datacenter networking; network audit and analysis; software defined wide area network; cloud managed network; and network functions virtualisation solutions. Further, the company is involved in real estate development activities; and electronic contract manufacturing services. The company was formerly known as MRO-TEK Limited and changed its name to MRO-TEK Realty Limited in May 2016. MRO-TEK Realty Limited was founded in 1984 and is headquartered in Bengaluru, India.
Parrot S.A.	Parrot S.A. provides commercial drones, covering equipment, and software and services in France and internationally. It also offers Pix4Dmapper, a drone modelling software; data sensors for precision farming; and mobile, desktop, cloud, SaaS, and business solutions. In addition, the company offers drone-based vine monitoring solutions; and car kit, audio, drone disco, AR drone, swing, mini drones, and connected garden solutions. It serves agriculture; 3D mapping, surveying, and inspection; and defense and security markets. Parrot S.A. was founded in 1994 and is headquartered in Paris, France.
UUV Aquabotix Limited	UUV Aquabotix Limited designs, develops, manufactures, and sells underwater drone systems, related technologies, and man-machine teaming solutions for a range of defense applications in Australia and the United States. It provides SwarmDiver product, an unmanned underwater and surface vehicle. The company offers rapid environmental assessment, port security and harbor management, mine countermeasure, and environmental monitoring, as well as distraction, diversion, and disarray solutions. UUV Aquabotix Limited was incorporated in 2016 and is based in Nedlands, Australia.

Source: Capital IQ

E. ASSESSMENT OF IMPACT ON VALUATION OF THE POTENTIAL DILUTIONARY IMPACT OF OPTIONS

Existing Unlisted Options

The Company has 15,026,696 unlisted options on issue. As the unlisted options are American Options (may be exercised at any time before the expiration date), we have utilised the binomial options valuation model to enable expected early exercise of the Options to be factored into the valuation.

The binomial model uses either a binomial or a trinomial distribution process to derive value by separating the total maturity period of the option into discrete periods. When progressing from one time period, or node, to another, the underlying common stock price is assumed to have an equal probability of increasing and/or decreasing by upward and downward price movements.

The inputs and assumptions we have used in the binomial model to value the potential dilutionary impact of the options are set out in the table below.

Input					
Number of options	8,169,619	4,000,000	955,480	953,544	948,053
Valuation date	12-Oct-20	12-Oct-20	12-Oct-20	12-Oct-20	12-Oct-20
Expiry date	13-Jun-23	13-Jun-21	17-Apr-24	24-Jun-24	5-Nov-24
Exercise price	\$0.0027	\$0.3000	\$0.1125	\$0.1125	\$0.0900
Initial share price	\$0.0236	\$0.0236	\$0.0236	\$0.0236	\$0.0236
Maximum option life in years	2.7	0.7	3.5	3.7	4.1
Assessed volatility	75%	75%	75%	75%	75%
Risk free rate	0.135%	0.090%	0.155%	0.155%	0.210%
Dividend yield	0%	0%	0%	0%	0%
Vesting condition	Vested	Vested	Vested	Vested	Vested
Early exercise factor	2.5	2.5	2.5	2.5	2.5

Valuation date and option life – we have valued the options as at the date of this Report and accordingly, have calculated remaining option life in years based on the date of this Report to the expiry date under the terms of each of the options on issue.

Exercise price – subject to the terms of the various options on issue as set out above.

Initial share price – we have adopted a share price of \$0.0236, being our assessment of the value of a ParaZero share prior to the Proposed Transaction on a non-controlling basis at the midpoint of our range (before adjusting for the potential dilutionary impact of the options). We assessed the value of a ParaZero share on a controlling basis to be \$0.0313 (before adjustment for potential dilutionary impact of the options, and assuming a foreign exchange rate of US\$1:A\$1.4484). Consistent with our assessment of a discount for minority interest in our valuation of a ParaZero share post the Proposed Transaction, we applied a discount of 23.1% to 25.9%, resulting in an assessed value per share of \$0.0232 to \$0.0240, with a preferred value of \$0.0236.

Volatility – the volatility of the share price is a measure of the uncertainty about the returns provided by ParaZero shares. Generally, it is possible to predict future volatility of a stock by reference to its historical volatility. A share with a greater volatility has a greater time component of the total value.

Our assumption is predicated on the fact that historical volatility is representative of expected future volatility.

Based on the above, and, having regard to the liquidity and historical volatility of ParaZero's shares, we have included a volatility of 75% for the Company in our assessment, based on the average daily, weekly and monthly share price volatility of ParaZero since the Company's listing in June 2018.

Risk free rate – we have determined this based on the yield of Commonwealth bond rates at 12 October 2020 that cover the period that best match the life of the options as at the respective valuation date as set out above.

Dividend yield – we have utilised a dividend yield of 0% on the basis that ParaZero has no current plans to issue dividends.

Vesting condition – as set out above

Early exercise factor – Expected early exercise is factored into the valuation by our application of the binomial model. The model incorporates an exercise factor, which determines the conditions under which an option holder is expected to exercise their options. It is defined as a multiple of the exercise price (e.g. 2.5 would mean that on average employees tend to exercise their options when the stock price reaches 2.5 times the exercise price).

This is considered more reliable than trying to guess the average time to exercise. For example, trying to estimate an average time after which employees exercise is likely to be inaccurate as during periods when the market is high employees are more likely to exercise early as opposed to times when the market is low. Using an exercise multiple, which is based on a robust theory of stock price behaviour/distribution overcomes these problems.

We have assumed that the exercise factor for these options is 2.5. There have been a number of historical studies that indicate that option holders early exercise options generally at between 2 to 3 times the exercise price, with the higher multiples generally attributable to more senior employees within the company.

Based on the inputs and assumptions above, our assessed value of the potential dilutionary impact of the unlisted options prior to and immediately after the Proposed Transaction are set out in the table below.

Option type	Number of options	Exercise price (\$)	Value of one option (\$)	Total dilutionary impact (\$)
Unlisted option	8,169,619	0.0027	\$0.0209000	\$170,745
Unlisted option	4,000,000	0.3000	\$0.0000002	\$1
Unlisted option	955,480	0.1125	\$0.0040179	\$3,839
Unlisted option	953,544	0.1125	\$0.0043108	\$4,110
Unlisted option	948,053	0.09	\$0.0057332	\$5,435
Total	15,026,696			\$184,131
Total (US\$)				US\$127,127

F. INDUSTRY OVERVIEW

The Company operates in the drone, or more broadly, the unmanned aerial systems (UAS) industry, with its target market primarily comprising Australia.

The Global Drone Market²

According to the Australian Government, the UAS market is expected grow in coming years due to the increasing uptake of UAS in agriculture, defence, and health industries. Much of this growth is expected to be in the Asia-Pacific region. Drone Industry Insights predicts that the global market for drone technologies will reach US\$43.1bn by 2024 from \$14.1bn in 2018. The market is estimated to grow with a compound annual growth rate (CAGR) of 25.7% from 2018-2024.

The Australian Drone Market²

There are over 1,200 drone operators in Australia developing technologies and services that support the larger drone ecosystem. Australia's presence in the market is growing, becoming a hub for Beyond Visual Line of Sight (BVLOS) testing.

Main industries deploying drones in Australia:

- Agriculture
- Mining
- Defence
- Emergency services
- Ecosystem monitoring (such as monitoring environmentally sensitive areas)

ParaZero is the only large provider of safety systems of its kind in Australia. Alternative safety systems include Civil Aviation Safety Authority verified safety apps. These apps are primarily for consumer drone users providing information on rules and regulation of drone use specific to location.

The Company's operations are closely aligned to the photographic equipment retailing market and the surveying and mapping market.

Surveying and Mapping Services in Australia³

Industry operators provide professional surveying services spanning a range of markets and disciplines. These include cadastral surveying, construction surveying, mapping services and integrated surveying services.

Industry revenue is expected to decline at an annualised 2.6% over the five years through 2019-20, falling to \$3.1bn. This decline mainly stems from reduced investment in infrastructure and resource-related developments, which have fallen from near-record peaks associated with the mining boom.

The primary activities of this industry are Aerial surveying services, Cadastral surveying services, Engineering surveying services, Geodetic surveying on a contract or fee basis, Hydrographic and oceanographic surveying, Land surveying services, Map preparation services, Mining surveying services, Photogrammetry surveying on a contract or fee basis and Seismic surveying services. The major products and services in this industry are Cadastral surveying Engineering surveying Mining, geophysical and integrated surveying Topographical and planimetric surveying Geospatial image acquisition and processing services.

Many of these services have been redesigned to use inexpensive drone technologies.

² <https://www.austrade.gov.au/news/latest-from-austrade/2019-latest-from-austrade/a-world-of-opportunities-for-australias-growing-drone-industry>

³ IBISWorld Report M6922 – Surveying and Mapping Services in Australia, June 2020

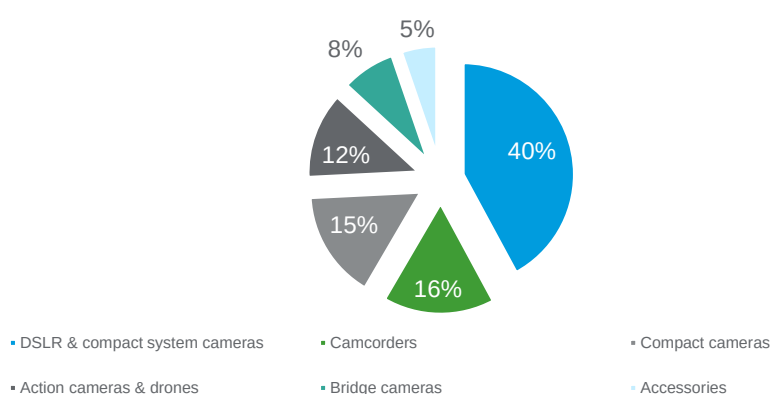
Photographic Equipment Retailing in Australia⁴

Industry operators primarily retail photographic equipment including cameras, camcorders, projectors and photographic accessories.

Industry revenue is projected to decline at an annualised 1.5% over the five years through 2024-25, to \$605.9, however drone cameras are projected to represent a potential growth area for the industry over the period. The growing popularity of drones, particularly over the latter half of the past five years, has provided further opportunities for differentiation in the industry's product market.

Drone cameras allow consumers to capture images from aerial vantage points and are proving increasingly popular with photography enthusiasts' growth in the range and affordability of drone devices has supported consumer interest in this niche segment over the past five years.

Products & Services Segmentation



Key External Drivers

- IT and telecommunications adoption
- Real household discretionary income
- Demand from online shopping
- Consumer sentiment index
- International travel by Australians

⁴ IBISWorld Report G4221B – Photographic Equipment Retailing in Australia, June 2020

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Proxy Voting Form

If you are attending the virtual Meeting
 please retain this Proxy Voting Form
 for online Securityholder registration.

Holder Number:

Your proxy voting instruction must be received by **4.00pm (Melbourne time) on Tuesday, 1 December 2020**, being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

SUBMIT YOUR PROXY

Complete the form overleaf in accordance with the instructions set out below.

YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: <https://investor.automic.com.au/#/home> Shareholders sponsored by a broker should advise their broker of any changes.

STEP 1 – APPOINT A PROXY

If you wish to appoint someone other than the Chair of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise if you leave this box blank, the Chair of the Meeting will be appointed as your proxy by default.

DEFAULT TO THE CHAIR OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chair of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chair of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP.

STEP 2 - VOTES ON ITEMS OF BUSINESS

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

SIGNING INSTRUCTIONS

Individual: Where the holding is in one name, the Shareholder must sign.

Joint holding: Where the holding is in more than one name, all Shareholders should sign.

Power of attorney: If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.

Companies: To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.

Email Address: Please provide your email address in the space provided.

By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at <https://automic.com.au>.

Lodging your Proxy Voting Form:

Online:

Use your computer or smartphone to appoint a proxy at

<https://investor.automic.com.au/#/login>

or scan the QR code below using your smartphone

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting Form.



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