



Delta Drone International Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Delta Drone International Limited
ABN:	17 618 678 701
Reporting period:	For the year ended 31 December 2021
Previous period:	For the year ended 31 December 2020

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	64.7% to	5,548,315
Loss from ordinary activities after tax attributable to members	up	1868.9% to	(3,621,946)
Net loss for the year attributable to members	up	1868.9% to	(3,621,946)

Dividends

There were no dividends paid, recommended or declared during the current financial period or the previous period

Commentary

Revenues from ordinary activities are composed of revenues from continuing operations, up 36.0% to \$4,581,961 (2021: \$3,369,115) and revenues from discontinued operations \$966,354 (2021:\$nil).

Net loss for the year attributable to the owners of Delta Drone International Limited is composed of losses from continuing operations of \$1,737,212 (2021:\$129,571) and losses from discontinued operations of \$1,884,734 (2021:\$ 54,388).

Further commentary on the results, Earnings per share, and statements of Comprehensive income, Financial position, Cash flows and Changes in Equity are contained within the attached Preliminary Final Report

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.19</u>	<u>0.91</u>

4. Control gained over entities

Name of entities (or group of entities)	Arvista Pty Ltd
Date control gained	1 September 2021

Arvista Pty Limited contributed \$39762 of profit before income tax to the result for the year, and prior to acquisition generated \$237,360 profit before tax for the whole of the previous period. The Transaction has been accounted for as a business combination. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Arvista Pty Ltd is deemed to meet this criterion and accordingly has been accounted for as a business.

5. Loss of control over entities

Not applicable in the current period as loss of control of Parazero Israel occurred subsequent to year end.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

Foreign entity accounting information complies with International Financial Reporting Standards (IFRS).

9. Audit

This Preliminary report is based on accounts which are in the process of being audited and we do not expect an emphasis of matter or modified opinion to be issued.

10. Signed

Signed



Date: 25 February 2022

Christopher Clark
Chief Executive Officer

Delta Drone International Limited

ABN 17 618 678 701

Preliminary Final Report - 31 December 2021

Delta Drone International Limited

31 December 2021

Principal activities

Delta Drone is a multi-national drone-based data service and technology solutions provider for the mining, agricultural and engineering industries. It provides aerial surveying and mapping, security and surveillance and blast monitoring and fragment analysis through a fully-outsourced service and fast data turnaround that allows enterprise customers to focus on their operations while DLT takes care of everything in the air, including compliance and maintenance.

During the year, Delta Drone had in-house enabling proprietary technology, an R&D and integration centre and specialist expertise in designing, developing and provided best-in-class autonomous safety systems for commercial drone deliveries, drone flights for crowd monitoring in urban areas as well as 'beyond visual line of sight' (BVLOS) missions.

While the COVID-19 pandemic did have an impact on the business, the overall business remained resilient due to long-term annuity contracts with mining customers, considered essential to national economies.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the Group after providing for income tax amounted to \$3,594,622 (31 December 2020: \$115,391).

The loss for the Group from continuing operations amounted to \$1,709,888 (31 December 2020: \$61,001).

Unless otherwise stated, all figures in this report are in the Company's presentation currency, the Australian Dollar ("A\$").

Significant changes in the state of affairs

Acquisition of 60% ownership of Arvista Pty Ltd

On 1 September 2021 the Group completed the acquisition of 60% of the shares in Perth-based provider of aerial and terrestrial surveying services, Arvista Pty Ltd (Arvista). The merger is a key milestone in DLT's expansion strategy and has immediately provided the Group with a blue-chip Australian client base and access to a team of highly skilled professionals with the expertise to expand their skillset beyond surveying to include the full range of drone-as-a-service operations Delta Drone International provides.

Board changes

During the year Mr Chris Singleton and Mr Dan Arazi resigned as non-executive directors effective 14 July 2021 and 21 June 2021 respectively, while Mr Nicolas Clerc, Mr Christian Viguie and Mr Clive Donner were appointed as non-executive directors effective 8 April 2021, 8 April 2021 and 14 July 2021 respectively.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 28 January 2022 the Group announced that it has entered into a binding agreement with a consortium of investors led by NASDAQ-listed Medigus Ltd and facilitated by Israeli venture capital firm L.I.A Pure Capital Ltd to sell ParaZero Technologies Ltd ("ParaZero") which operates the Company's drone safety business, for a total consideration of A\$6 million in cash. This transaction allows the Group to focus on becoming one of the leading drone service providers globally after its successful acquisition of the Delta Drone South Africa business in December 2020 and the purchase of Arvista Pty Ltd in Australia in September 2021. Post-sale this will leave the Company with a strengthened balance sheet and a substantially reduced need for cash to fund the ongoing R&D investment that had been required by the ParaZero business, allowing the Group to focus on aggressively growing its global drone services business. As such, the assets (including goodwill and intangible assets), liabilities and net profit of the Parazero operations have been classified as assets held for sale and liabilities directly attributed to discontinued operations in the 31 December 2021 report.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.



Christopher Clark
Chief Executive Officer
25 February 2022

Delta Drone International Limited

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31 December 2021

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General information

The financial statements cover Delta Drone International Limited as a Group consisting of Delta Drone International Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Delta Drone International Limited's functional and presentation currency.

Delta Drone International Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

75 Thomas Street, Subiaco WA 6008

Principal place of business

75 Thomas Street, Subiaco WA 6008

Delta Drone International Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	Consolidated 2021 \$	2020 \$
Revenue		4,581,961	3,369,115
Cost of sales		<u>(2,153,244)</u>	<u>(1,398,727)</u>
Gross profit		<u>2,428,717</u>	<u>1,970,388</u>
Other income		39,811	68,519
Gains from disposals of assets		11,123	20,332
Expenses			
Operating expense	3	(4,118,191)	(1,874,275)
Depreciation expense		(86,995)	(125,154)
Amortisation of intangible assets		<u>(33,273)</u>	<u>(37,595)</u>
Operating (loss)/profit		<u>(1,758,808)</u>	<u>22,215</u>
Finance income		11,654	26,292
Finance expense		<u>(867)</u>	<u>(23,064)</u>
(Loss)/profit before income tax benefit/(expense) from continuing operations		<u>(1,748,021)</u>	<u>25,443</u>
Income tax benefit/(expense)		<u>38,133</u>	<u>(86,446)</u>
Loss after income tax benefit/(expense) from continuing operations		<u>(1,709,888)</u>	<u>(61,003)</u>
Loss after income tax expense from discontinued operations	4	<u>(1,884,734)</u>	<u>(54,388)</u>
Loss after income tax benefit/(expense) for the year		<u>(3,594,622)</u>	<u>(115,391)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(94,768)</u>	<u>454,230</u>
Other comprehensive income for the year, net of tax		<u>(94,768)</u>	<u>454,230</u>
Total comprehensive income for the year		<u><u>(3,689,390)</u></u>	<u><u>338,839</u></u>
Loss for the year is attributable to:			
Non-controlling interest		27,324	68,568
Owners of Delta Drone International Limited		<u>(3,621,946)</u>	<u>(183,959)</u>
		<u><u>(3,594,622)</u></u>	<u><u>(115,391)</u></u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(4,705)	67,596
Discontinued operations		-	-
Non-controlling interest		<u>(4,705)</u>	<u>67,596</u>
Continuing operations		(1,799,950)	325,631
Discontinued operations		<u>(1,884,735)</u>	<u>(54,388)</u>
Owners of Delta Drone International Limited		<u>(3,684,685)</u>	<u>271,243</u>
		<u><u>(3,689,390)</u></u>	<u><u>338,839</u></u>

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Delta Drone International Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

		Cents	Cents
Loss per share for loss from continuing operations			
Basic / Diluted loss per share	11	(0.34)	(0.09)
Loss per share for loss from discontinued operations			
Basic / Diluted loss per share	11	(0.37)	(0.04)
Loss per share for loss			
Basic / Diluted loss per share	11	(0.71)	(0.13)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Delta Drone International Limited
Consolidated statement of financial position
As at 31 December 2021

	Note	Consolidated 2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents		954,916	4,991,134
Trade and other receivables		1,743,759	789,758
Financial assets held at amortised cost		34,869	35,531
		<u>2,733,544</u>	<u>5,816,423</u>
Assets of disposal groups classified as held for sale	5	6,454,610	7,282,631
Total current assets		<u>9,188,154</u>	<u>13,099,054</u>
Non-current assets			
Property, plant and equipment		741,252	397,952
Right-of-use assets		121,621	177,304
Intangibles		5,313	23,730
Deferred tax		97,542	65,318
Goodwill	6	1,403,438	580,824
Total non-current assets		<u>2,369,166</u>	<u>1,245,128</u>
Total assets		<u>11,557,320</u>	<u>14,344,182</u>
Liabilities			
Current liabilities			
Trade and other payables		793,211	408,425
Contract liabilities		114,850	-
Borrowings		350,000	506,839
Lease liabilities		97,638	79,194
Provisions	7	271,483	-
Bank overdraft		18,895	31
		<u>1,646,077</u>	<u>994,489</u>
Liabilities directly associated with assets classified as held for sale		1,596,352	1,746,997
Total current liabilities		<u>3,242,429</u>	<u>2,741,486</u>
Non-current liabilities			
Borrowings		105,253	-
Lease liabilities		56,003	122,642
Deferred tax		-	13,169
Total non-current liabilities		<u>161,256</u>	<u>135,811</u>
Total liabilities		<u>3,403,685</u>	<u>2,877,297</u>
Net assets		<u>8,153,635</u>	<u>11,466,885</u>
Equity			
Issued capital	8	13,207,118	12,904,061
Reserves	9	(583,256)	(548,725)
Accumulated losses		(4,585,416)	(963,472)
Equity attributable to the owners of Delta Drone International Limited		<u>8,038,446</u>	<u>11,391,864</u>
Non-controlling interest		115,189	75,021
Total equity		<u>8,153,635</u>	<u>11,466,885</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Delta Drone International Limited
Consolidated statement of changes in equity
For the year ended 31 December 2021

Consolidated	Issued capital \$	Foreign Currency Translation Reserve \$	Reserves \$	Accumulated losses \$	Non-controlling interest \$	Total equity \$
Balance at 1 January 2020	1,159,854	(35,357)	(968,570)	(779,513)	7,425	(616,161)
(Loss)/profit after income tax expense for the year	-	-	-	(183,959)	68,568	(115,391)
Other comprehensive income for the year, net of tax	-	455,202	-	-	(972)	454,230
Total comprehensive income for the year	-	455,202	-	(183,959)	67,596	338,839
<i>Transactions with owners in their capacity as owners:</i>						
Reverse acquisition	5,563,284	-	-	-	-	5,563,284
Issue of shares	6,815,530	-	-	-	-	6,815,530
Share issue costs	(634,607)	-	-	-	-	(634,607)
Balance at 31 December 2020	<u>12,904,061</u>	<u>419,845</u>	<u>(968,570)</u>	<u>(963,472)</u>	<u>75,021</u>	<u>11,466,885</u>

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Reserves \$	Share based payment reserve \$	Accumulated losses \$	Non-controlling interest \$	Total equity \$
Balance at 1 January 2021	12,904,061	419,845	(968,570)	-	(963,470)	75,021	11,466,887
(Loss)/profit after income tax benefit for the year	-	-	-	-	(3,621,946)	27,324	(3,594,622)
Other comprehensive loss for the year, net of tax	-	(92,462)	-	-	-	(2,306)	(94,768)
Total comprehensive income for the year	-	(92,462)	-	-	(3,621,946)	25,018	(3,689,390)
Acquisition of Arvista	288,000	-	-	-	-	15,150	303,150
Issue of shares	20,939	-	-	-	-	-	1,564
Issue of performance rights	-	-	-	57,931	-	-	57,931
Share issue costs	(5,882)	-	-	-	-	-	(5,882)
Balance at 31 December 2021	<u>13,207,118</u>	<u>327,383</u>	<u>(968,570)</u>	<u>57,931</u>	<u>(4,585,416)</u>	<u>115,189</u>	<u>8,153,635</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Delta Drone International Limited
Consolidated statement of cash flows
For the year ended 31 December 2021

	Note	Consolidated 2021 \$	2020 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		4,184,012	3,761,123
Payments to suppliers (inclusive of GST)		<u>(5,898,520)</u>	<u>(3,483,788)</u>
		(1,714,508)	277,335
Interest received		<u>11,654</u>	<u>23,374</u>
Net cash from/(used in) operating activities		<u>(1,702,854)</u>	<u>300,709</u>
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired		231,213	-
Payments for property, plant and equipment		(729,481)	(339,117)
Proceeds from disposal of property, plant and equipment		-	91,376
Cash acquired on acquisition of subsidiary		-	247,104
Payments for deposits (equipment and rental)		<u>-</u>	<u>(19,876)</u>
Net cash used in investing activities		<u>(498,268)</u>	<u>(20,513)</u>
Cash flows from financing activities			
Proceeds from issue of shares	8	-	4,395,356
Repayment of borrowings		(116,212)	(167,707)
Repayment of lease liabilities		<u>(49,062)</u>	<u>(112,563)</u>
Net cash from/(used in) financing activities		<u>(165,274)</u>	<u>4,115,086</u>
Net increase/(decrease) in cash and cash equivalents		(2,366,396)	4,395,282
Cash and cash equivalents at the beginning of the financial year		4,991,134	784,604
Effects of exchange rate changes on cash and cash equivalents		-	3,037
Cash movement of discontinued operations		<u>(1,207,397)</u>	<u>(191,789)</u>
Cash and cash equivalents at the end of the financial year		<u><u>1,417,341</u></u>	<u><u>4,991,134</u></u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Delta Drone International Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Delta Drone International Limited ('Company' or 'parent entity') as at 31 December 2021 and the results of all subsidiaries for the year then ended. Delta Drone International Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Delta Drone International Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in Australian dollars, which is Delta Drone International Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Note 1. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 1. Significant accounting policies (continued)

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	40 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Note 1. Significant accounting policies (continued)

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Note 1. Significant accounting policies (continued)

Employee benefits

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Note 1. Significant accounting policies (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Delta Drone International Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Note 1. Significant accounting policies (continued)

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

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Note 2. Critical accounting judgements, estimates and assumptions (continued)

Warranty provision

In determining the level of provision required for warranties the Group has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Operating expense

	Consolidated	
	2021	2020
	\$	\$
Employee benefits expense	1,478,849	822,905
General and administrative expenses	1,398,698	879,150
Corporate costs	1,240,644	172,220
	<u>4,118,191</u>	<u>1,874,275</u>

Note 4. Discontinued operations

Financial performance information

	Consolidated	
	2021	2020
	\$	\$
Revenue	966,354	-
Expenses	<u>(2,851,088)</u>	<u>(54,388)</u>
Loss before income tax expense	(1,884,734)	(54,388)
Income tax expense	<u>-</u>	<u>-</u>
Loss after income tax expense from discontinued operations	<u>(1,884,734)</u>	<u>(54,388)</u>

Discontinued operations refer to ParaZero Israel. The Group was engaged post year end in finalising the sale which concluded in January 2022.

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Note 5. Current assets - assets of disposal groups classified as held for sale

	Consolidated	
	2021	2020
	\$	\$
Cash and cash equivalents	45,424	191,789
Trade and other receivables	38,281	184,453
Inventories	483,894	480,850
Property, plant and equipment	68,957	82,337
Intangibles and goodwill	5,818,054	6,343,202
	<u>6,454,610</u>	<u>7,282,631</u>

Note 6. Non-current assets - Goodwill

	Consolidated	
	2021	2020
	\$	\$
Goodwill	<u>1,403,438</u>	<u>580,824</u>

Goodwill relates to the acquisition of Rocketmine (Pty) Ltd (South Africa), and Arvista Pty Ltd (Australia).

Note 7. Current liabilities - provisions

	Consolidated	
	2021	2020
	\$	\$
Deferred consideration - Arvista Pty Ltd acquisition	<u>271,483</u>	<u>-</u>

Note 8. Equity - issued capital

	Consolidated			
	2021	2020	2021	2020
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>511,604,932</u>	<u>500,800,731</u>	<u>13,207,118</u>	<u>12,904,061</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 January 2021	500,800,731		12,904,061
Issue of shares on exercise of shares	10 February 2021	579,201	\$0.0027	1,564
Issue of shares to third party	10 March 2021	625,000	\$0.0310	19,375
Issue of shares for acquisition of Arvista Pty Ltd	1 September 2021	9,600,000	\$0.0300	288,000
Share issue costs	1 September 2021	<u>-</u>	\$0.0000	<u>(5,882)</u>
Balance	31 December 2021	<u>511,604,932</u>		<u>13,207,118</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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Note 8. Equity - issued capital (continued)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Note 9. Equity - reserves

	Consolidated	
	2021	2020
	\$	\$
Predecessor accounting reserves	(968,570)	(968,570)
Foreign currency reserve	327,383	419,845
Share-based payments reserve	57,931	-
	<u>(583,256)</u>	<u>(548,725)</u>

Note 10. Events after the reporting period

On 28 January 2022 the Group announced that it has entered into a binding agreement with a consortium of investors led by NASDAQ-listed Medigus Ltd and facilitated by Israeli venture capital firm L.I.A Pure Capital Ltd to sell ParaZero Technologies Ltd ("ParaZero") which operates the Company's drone safety business, for a total consideration of A\$6 million in cash. This transaction allows the Group to focus on becoming one of the leading drone service providers globally after its successful acquisition of the Delta Drone South Africa business in December 2020 and the purchase of Arvista Pty Ltd in Australia in September 2021. Post-sale this will leave the Company with a strengthened balance sheet and a substantially reduced need for cash to fund the ongoing R&D investment that had been required by the ParaZero business, allowing the Group to focus on aggressively growing its global drone services business. As such, the assets (including goodwill and intangible assets), liabilities and net profit of the Parazero operations have been classified as assets held for sale and liabilities directly attributed to discontinued operations in the 31 December 2021 report.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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Note 11. Earnings per share

	Consolidated	
	2021	2020
	\$	\$
<i>Loss per share for loss from continuing operations</i>		
Loss after income tax	<u>(1,737,210)</u>	<u>(129,571)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic / diluted earnings per share	<u>505,033,787</u>	<u>144,191,756</u>
	Cents	Cents
Basic / Diluted loss per share – continuing operations	(0.34)	(0.09)
	Number	Number
<i>Loss per share for loss from discontinued operations</i>		
Loss after income tax	<u>(1,884,734)</u>	<u>(54,388)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic / diluted earnings per share	<u>505,033,787</u>	<u>144,191,756</u>
	Cents	Cents
Basic / Diluted loss per share – discontinued operations	(0.37)	(0.04)
	Cents	Cents
Basic / Diluted loss per share – attributable to the shareholders of the parent entity	(0.71)	(0.13)