

ASX Announcement

31 March 2023

2022 Annual Report

Elsight Limited (ASX: ELS) (**Elsight** or **the Company**), is pleased to release the attached 2022 Annual Report, including the Corporate Governance Statement.

The Company also advises that the Annual General Meeting of Shareholders will be held as a virtual meeting on Wednesday, 31 May 2023.

Authorised for release by the Board of Directors of Elsieht Limited.

-ENDS-

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About Elsieht

Elsight (ASX:ELS) (www.elsight.com) Elsieht delivers Absolute Connection with 24/7 Confidence. Our proprietary bonding technology incorporates both software and hardware elements to deliver extremely reliable, secure, high bandwidth, real-time connectivity - even in the most challenging areas for stationary, portable, or actively mobile situational requirements.

Elsight Limited

ABN 98 616 435 753

Annual Report - 31 December 2022

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General information

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entity (also referred to as **Group**). Elsight Limited is a listed public company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity.

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were issued by the board of directors on 31 March 2023 by the directors of the Company.

Directors

Major General (ret) Ami Shafran – Non-Executive Chairman
Mr David Furstenberg – Executive Director
Mr Howard Digby – Non-Executive Director
Mr Joshua (Jim) Landau – Non-Executive Director

Company secretary

Mr Mark Licciardo

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Auditor

BDO Audit (WA) Pty Ltd
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Securities exchange listing

Elsight Limited shares are listed on the Australian Securities Exchange (ASX code: ELS)

Website

www.elsight.com

Dear Shareholders,

It is my pleasure to present the 2022 Annual Report for Elsieht Limited, which outlines the Company's material progress over the past year in the high-growth unmanned aerial vehicle (UAV) market.

2022 was a pivotal year for both the industry, and the Company as, for the first time, the market started showing small but significant signs of maturity. Walmart began testing drone deliveries in 2020. A year later, on June 17th' 2021, John Furner, CEO and President of Walmart US announced "Now, after safely completing hundreds of drone deliveries from Walmart stores, we're making an investment in DroneUp to continue our work toward developing a scalable last-mile delivery solution." In mid-November 2021 DroneUp started its first-ever delivery service in one store in Arkansas. On May 24th' 2022, David Guggina, Senior Vice President of Innovation and Automation, Walmart U.S., announced their first-ever their first plan for significant expansion to service and "reach 4 million U.S. households across six states – Arizona, Arkansas, Florida, Texas, Utah and Virginia." By year-end, they slightly exceeded their original May target! On August 24th' 2022, Tom Walker' DroneUp CEO announced their investment of US\$7 million to expand their headquarters to create 510 new jobs, plus an additional investment of US\$20.2 million in R&D, training and testing facility. On August 24, 2022, Tom Walker, DroneUp CEO told the media "Our delivery capacity will be four million homes by the end of this year. Our goal is 30 million by the end of next year." He further stated that "Our partnership with Walmart is unique because there are 4,700 Walmarts. Ninety-two percent of the U.S. population lives within 10 miles of a Walmart. So, as we work with the FAA and negotiate that broader range, we're starting to go three, four, five, ten miles. It's not long before 92 percent of the U.S. population can be receiving products." Finally, on August 30, 2022 - Walmart added its second board member to DroneUp's board of directors by appointing Mr. David Guggina, Senior Vice President of Innovation and Automation at Walmart. As a mirror image of this industry progress, the Company successfully transitioned from demo to trialling, to full and deep integration, certification, and proof-of-concept with customers, to commercial orders and agreements. The drone industry continues to rapidly grow and commercialise, and I am pleased to report that Elsieht is ideally positioned to be part of this growth due to the successful implementation of the 'design win' strategy, which I outlined in my report last year. In addition, the Company built excellent brand recognition, through second-to-none technology, quality support, and industry's best delivery time.

The commercial orders and agreements received from 'design win' partners, such as DroneUp and Spright in North America and Speedbird in Brazil, marks a significant milestone in the Company's history and paves the way for future growth. By year end, the Company had 78 design win partners across a number of geographic regions and industries, ensuring the Company is in a strong position for further commercial success.

Importantly, the expansion of commercial orders and multi-year agreements with customers has led to growth in recurring revenue as Elsieht's proprietary data and cloud services are deployed to support Halo units. To further facilitate the growth of recurring revenue, during the year the Company introduced the Halo-as-a-Service (HaaS) payment model. This model better aligns Elsieht's business model with that of our customers by lowering upfront payments while increasing the Company's recurring revenue and profitability over time.

Throughout the year, we remained committed to investing in our market leading technology, introducing new features like 5G and Remote-ID, to ensure we remain at the forefront of the industry. The improvements in technology not only help to attract new customers to Elsieht, but also increases the opportunity with existing customers.

The Company successfully raised capital during the year and is in a strong position to continue to execute on growth initiatives.

Elsieht has enjoyed great success in 2022 which gives me confidence that we can continue to build on our achievements in 2023 and beyond as the UAV industry continues to expand into new markets and regions.

We remain committed to delivering the most advanced connectivity solutions to our customers to ensure absolute connection confidence, even in the most challenging environments.

In closing, I would like to take this opportunity to thank our employees, partners and shareholders for their ongoing support and I look forward to providing further updates on our progress throughout 2023.

Sincerely,

Maj. Gen. (ret) Ami Shafran

Chairman

31 March 2023

Your Directors present their report, together with the financial statements of Elsieht Limited ("the Company") and controlled entities ("the Group") for the financial year ended 31 December 2022.

Directors

The names and the particulars of the Directors of the Company during or since the end of the financial year are:

Name	Status	Appointed	Resigned
Major General (ret) Ami Shafran	Non-Executive Chairman	2 June 2017	-
Mr David Furstenberg	Executive Director	2 June 2017	-
Mr Howard Digby	Non-Executive Director	13 December 2016	-
Mr Joshua (Jim) Landau	Non-Executive Director	1 October 2021	-

Principal activities

The principal activities of the Group during the year were the development and commercialisation of Halo in the Unmanned Aerial Vehicle ("UAV") market.

Dividends

There were no dividends paid or recommended during the financial year ended 31 December 2022 (2021: Nil)

Review and results of operations

Unless otherwise stated all figures in this report are in the Group's presentation currency US\$.

Elsight Limited incurred a loss for the year of \$4,306,433 (2021: loss of \$6,043,694). The decrease in loss of \$1,737,261 from 2022 to 2021 is largely due to the Company's focus on reducing its operational costs and a decrease in bad debts expense.

The net assets of the Group have decreased by \$982,769, from net assets of \$2,832,265 at 31 December 2021 to net assets of \$1,849,496 at 31 December 2022.

As at 31 December 2022, the Group's cash and cash equivalents increased from a balance of \$1,990,057 at 31 December 2021 to a balance of \$5,194,794 at 31 December 2022. As at 31 December 2022 the Group has working capital of \$5,789,295 (2021: \$2,403,409).

Review of activities

FY22 was a pivotal year for Elsieht with several commercial orders and agreements secured for the delivery of 'Halo' units in a number of jurisdictions globally. The implementation and success of the design win strategy ensures Elsieht is very well positioned for growth as UAV's (Unmanned Aerial Systems) continue to be adopted and deployed across several market verticals.

The Company remained focused on building its market-leading position as the go-to provider for complete connection confidence. Throughout the year, Elsieht participated in multiple industry events where the industry's sentiment around the Halo solution and its value to the sector was very positive. While the overall revenues are still small, the Group is encouraged that the drone market is gaining momentum and exceeding expectations in relation to commercial adoption. This was evidenced by the Group's initial estimate for the Walmart/DroneUp deployment during 2022, which called for deployment in only up to seven stores. In May 2022, Walmart announced a drone service deployment during 2022 in 34 stores, in 6 states, to serve approximately four million prospective customers. In January 2023, Walmart announced they now have 36 US stores with drone delivery hubs across seven states and that they successfully completed more than 6,000 drone deliveries in 2022. As announced by DroneUp CEO Tom Walker in August 2022, delivery capacity is expected to be four million homes by the end of 2022, with 30 million by the end of 2023. The Company expects continuous upfront and recurrent revenue growth with DroneUp as Walmart's expansion of this new service continues to gain traction.

DroneUp is great validation for the Design Win strategy and how the product and business models translate into a high growth opportunity.

'Design Win' Strategy

The 'Design Win' strategy was very successful in 2022, with 42 new partners added to the Group program during the year, bringing the total number of companies working with Elsieht's Halo solution to 78. The new partners are from a range of regions (Europe, North America, Latin America, India, and South East Asia) and industries (Home Land Security, parcel delivery, last mile logistics, inspection, agriculture, and healthcare), which not only provides strong validation for the Group's Halo product, but also has Elsieht well positioned for future revenue growth as these different markets and companies advance their commercial opportunities within the unmanned market.

In a major milestone for the Company, the 'Design Win' strategy delivered commercial success in FY22 by converting existing partners into paying customers, beginning with Walmart-backed, DroneUp, in January. The Company announced that its 'Halo' bonded connectivity solution had been selected by DroneUp for the crucial task of controlling drones Beyond the Visual Line of Sight (BVLOS), to ensure absolute connection confidence to their drones used for commercial parcel deliveries.

Following the success of drone parcel delivery services, Walmart announced plans to expand this service, through their partnership with DroneUp, from one US state to six by the end of 2022, providing Elsieht an opportunity to participate in the growth of this exciting market through its collaboration with DroneUp.

In June 2022, Elsieht announced that Air Method's wholly owned drone subsidiary, Spright, placed its first commercial order of Halo units after signing a five-year agreement with the Company to expand UAV healthcare services in North America. As part of this agreement, Spright also became an official reseller of 'Halo' in the United States, further increasing the Company's distribution opportunities in that region.

In July 2022, the Company announced a break-through in South America by announcing that Brazilian company, Speedbird Aero, signed a commercial agreement for Halo to be used for BVLOS drone parcel delivery services in Brazil, with subsequent orders expected over calendar years 2022 and 2023.

In August 2022, the Company announced the receipt of a repeat 'Halo' order from Spright following the multi-year agreement announced in June. The commercial value of this order was approximately US\$90,000. The order consisted of both upfront hardware revenue as well as recurring software revenues. Additional orders totaling approximately US\$89,000 were received during the remainder of FY22 under the Spright agreement.

The drone market is rapidly developing and providing a number of commercial opportunities for Elsieht. The 'Design Win' strategy ensures the Company is well positioned to grow organically with the market with minimal further sales effort or cost.

Technology Update

Technology innovation continues to be a key priority for Elsieht. During the period, the Company introduced RID (Remote-ID) and 5G features to be offered to new and existing partners. The Company received its first commercial order for the Halo 5G unit during the year, expanding the Company's product portfolio and creating growth engines with new and existing customers. Remote-ID is an FAA standard for 'tail numbers' for drones, which will become a requirement for all drone operators commencing in September 2023.

NA'AMA Project Update

Elsieht's involvement in the NAAMA Initiative continued during the year with the Group participating in the 5th NAAMA event, with all participants in the initiative choosing to use Elsieht's Halo in their drones' platforms.

Israel Innovation Authority Grant

In November 2022, the Company announced it had been selected for a grant of US\$450k by the Israel Innovation Authority, for the second phase of NAAMA Initiative pilot project to examine use cases and integration of large drones designed to carry passengers and heavy cargo in National airspace. Following the successful initial pilot phase where all pre-defined metrics were met, Elsieht was selected as one of 10 companies to participate in the second phase pilot project commencing January 2023. The grant for this two-year pilot project will assist in supporting the financing of the expansion of the Halo BVLOS connectivity system roadmap.

Halo-as-a-Service (HaaS) as a recurring payment model

During the year, the Company introduced the HaaS payment model to better align Elsieht's business model with that of some of our customers, by lowering the upfront payments while modestly increasing recurring monthly payments received by the Company during the term of Halo usage. The new pricing model allows the Company's customers to grow and scale with a smaller upfront cost while improving Elsieht's recurring revenue opportunity and profitability over time as a win-win strategy (see Figures 1 & 2 below). The board views the recurring revenue model as a significant business achievement since it improves the longevity of ongoing revenues from hardware selling which typically is a onetime revenue event. In the long run, this also becomes a recession-proof model that increases Y-O-Y even during economic downturns.

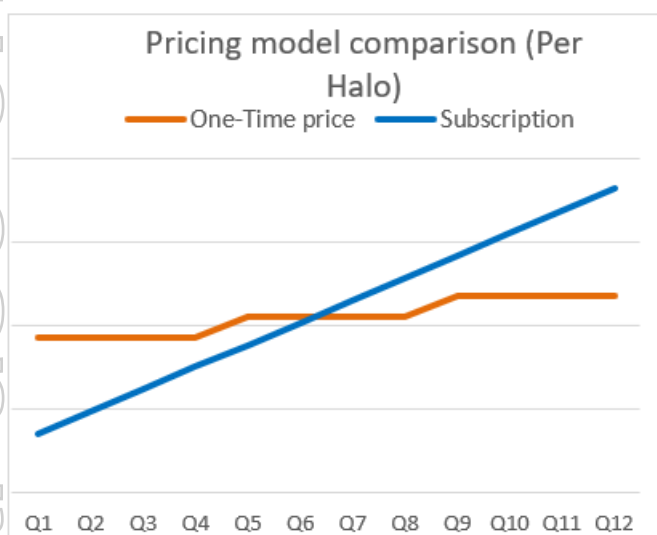


Figure 1

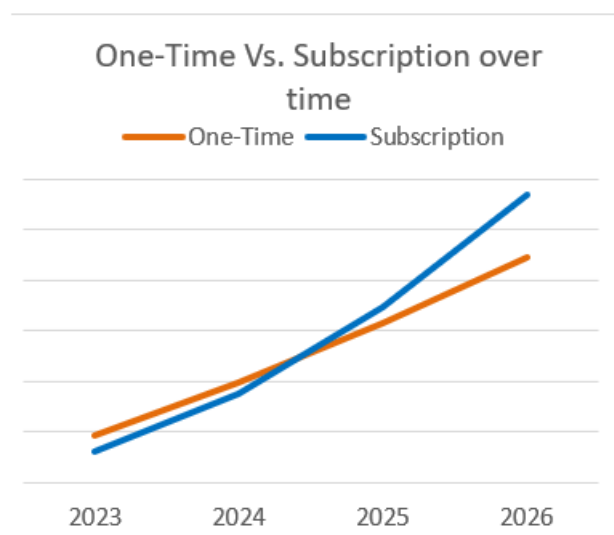


Figure 2

Strong growth in recurring revenues

During FY22, the Company focused on growing recurring revenues. With multiple new commercial agreements in place, combined with the introduction of the HaaS payment model, the Company saw an acceleration in recurring revenues throughout the year. In Q1 FY22, recurring revenues accounted for 1% of total revenues. By Q4 FY22, recurring revenues accounted for 21% of total revenues for the period. The Company expects this trend to continue as Elsieht's proprietary data and cloud services are deployed to support Halo units.

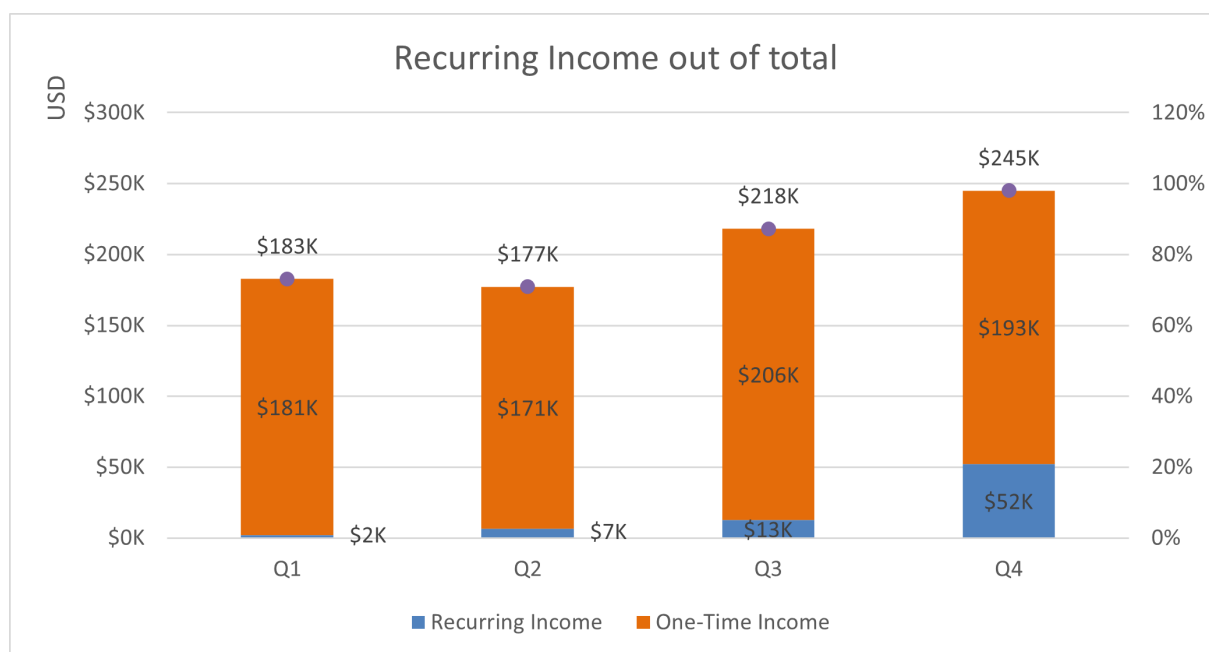


Table 1 This chart sets out the audited quarterly income for the Company with the increasing contribution of the Recurrent Income based on Elsight Cloud and connectivity plans.

Regulatory Update

An important part of the path forward is the regulatory environment and during the year the Company announced that its R&D and certification partner, Airobotics Inc, received FAA Special Class Airworthiness Criteria for their OPTIMUS 1-EX Unmanned Aircraft. OPTIMUS 1-EX is embedded with Elsight's 'Halo' technology to enable Beyond Visual Line of Sight (BVLOS) connection capability. The Board maintains that with the completion of this stage of the certification process, that Airobotics is likely to be among the first in the world to receive the highly coveted FAA TC (Type Certificate).

PERCEIVED RISK: What may happen if the FAA continues to hold back, and the granting of full Type Certification takes much longer or never materializes?

This is a question asked by some due to the FAA's long delay. Despite the current reality, the industry is progressing ahead of schedule (based on the granting of local waivers). Under the worst-case scenario (the current situation with no blanket FAA certification) this already robust expansion rate is expected to keep accelerating. Therefore, while highly desired with huge potential benefits, this is not a showstopper. Once the FAA completes the certification, it is reasonable to assume that this market will enjoy a significant surge in growth.

As powerful as the FAA may be, it is unlikely to stop progress. In addition, regulatory approvals in other countries have competitive implications for the US industry. FAA certification will clearly enable expansion of the flying distances from the stores - increasing the universe of customers (and the number of drones therefore Halo HW revenues) while similarly increasing recurring communication revenues due to more and longer flights. Currently, the market, led by giant pioneers like Walmart, Amazon and FedEx, is progressing cautiously while studying and adapting to all the necessary changes and improvements. Once this process is completed, both the market leaders and the FAA itself will be better positioned for mass deployment, enabling the geographic and operational potential to cover the vast majority of the American population.

Safety above all: The FAA is very aware and conscious of well-publicized autonomous car accidents with human fatalities on the roads of America. It is reasonable to assume that the FAA will do all that it can to avoid such an occurrence within the drone industry, as drones are flying over the rooftops of urban America. The fact that thousands and thousands of **SAFE** drone commercial parcel delivery flights are taking place throughout America's skies with no accidents – should provide the FAA with the type of confidence needed to conclude the type certification process.

Waivers versus FAA certification: Securing waivers is a relatively simple and quick process (as the Walmart expansion from 3 to 34 stores within five months has shown). However, such waivers usually come with limitations on the delivery radius (typically one to two nautical miles from the store). Therefore, the main benefit of a full FAA certification would be the significant expansion of the flight distance from the stores and the associated increase in prospective end-customers and flights. Such a distance increases benefits to the Company in a number of ways: It fosters an increase in recurring revenues, the number of drones (one-time hardware fee), the universe of customers, and the scaleup and profitability of these services.

The board believes that the main risk to Elsight is not driven by regulatory risk factors, but by the rate of growth of the nascent drone market. It is reasonable to view the current lack of FAA certification not as an impairment, but rather as a future catalyst to a market that is expanding even without it. The Company has streamlined operations during 2022 to at least grow organically with the industry, while also ensuring Elsight is well positioned to respond quickly to the market when future changes to regulations are implemented.

CORPORATE

Across April and May 2022, the Company completed a transaction related to the early exercise of Founder options which raised a total of A\$3.345 million / US\$2.452 million. Funds raised from the early exercise of options allows Elsight to continue to accelerate the execution of the 'Design Win' strategy and the rollout of the Company's Halo technology with commercial partners.

As part of its preparation for an anticipated market expansion in 2023-2024, in May 2022, the Company announced aerospace industry veteran Mr Kevin Hightower's appointment to Elsight's Advisory Board to help drive commercial drone operations globally. Mr Hightower has been advancing technology adoption in the aerospace industry for 21 years, with over 15 years at Lockheed Martin, and over three years with Wing (Alphabet/Google's drone company) and he recently joined Cirium as VP of Product. Mr Hightower's skills and expertise will be of tremendous value to the Company moving forward.

The Company's Annual General Meeting was held on 27 May 2022 with all resolutions passed.

In June 2022, the Company announced it had offered a long-term incentive component for Chief Executive Officer Yoav Amitai. Mr Amitai was issued with 3,583,452 unlisted options exercisable at A\$0.48 on or before 26 May 2027. The options were issued pursuant to the Group's Employee Share Option Plan in four (4) Tranches, with each tranche having a performance or service-based vesting condition. The long-term incentive has been designed to ensure appropriate rewards are in place for the continued commercial success of Elsieht.

In November 2022, the Company received commitments to raise A\$8 million / US\$5.1 million through an offer of secured convertible notes to a range of well-recognised Australian institutions and sophisticated investors. In December 2022, the Company issued 25,149,500 convertible notes with a value of A\$7,544,850 / US\$5,123,481.

During 2022, Elsieht established several commercial orders and multi-year engagements with 'design win' partners, including those with DroneUp and Spright in North America and Speedbird in Brazil, and the Company is expecting multiple repeat orders to be received under these engagements. Funds raised during the period enable Elsieht to continue to execute its growth strategy as the unmanned market continues with mainstream commercial adaptation.

Significant changes in the state of affairs

Other than as stated above, there were no significant changes in the state of affairs of the Group during the financial year.

Information on Directors

Name:	Major General (ret) Ami Shafran
Title:	Non-Executive Chairman (Appointed 2 June 2017)
Qualifications:	-
Experience:	Major General Shafran is the former Head of the Israeli Defence Force Information and Communications Technology Command. In addition, he is currently the Head of the Center for Cyber Technology at Ariel University in Israel.
	Over the course of his extensive career Major General Shafran held numerous prestigious and prominent positions in the Defence and Intelligence forces of the Israeli Defence Force, including serving as its Chief Scientist, service as Chief of Staff of the Ministry of Defence, and the Research and Development Attaché at the Israeli Embassy in Washington DC.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	61,440 Ordinary shares
Interests in options:	Nil

Name:

Title:

Qualifications:

Experience:

Mr David Furstenberg

Executive Director (Appointed 2 June 2017)

-

David has held various senior CEO, Chairman, Board member and VP Global sales positions in a number of publicly traded and privately owned companies, including Comverse (NASDAQ: CNSI) and Audiocodes (NASDAQ: AUDC), Enure, and Vista (a subsidiary of Israel Aerospace Industries).

Most recently David was the active Chairman at NovelSat and the CEO at InsurBit, as well as a director of White Cyber Knight Ltd and Insurix Inc., all companies involved in cyber and security businesses in some form.

David has built a speciality in assisting with the turnaround of high-tech companies through product and market repositioning (as opposed to reduction in force). He transitioned from non-Executive to Executive Director of the Company from 1 November 2020.

Other current directorships:

Nil

Former directorships (last 3 years):

Nil

Special responsibilities:

Nil

Interests in shares:

61,440 Ordinary shares

Interests in options:

Nil

Name:

Title:

Qualifications:

Experience:

Mr Howard Digby

Non-Executive Director (Appointed 13 December 2016)

Bachelor of Engineering (Mechanical) (Honours)

Howard began his career at IBM and has spent 25 years managing technology related businesses in the Asia Pacific region, of which 12 years were spent in Hong Kong. More recently, he was with The Economist Group as Regional Managing Director. Prior to this, he held senior regional management roles at Adobe and Gartner. Upon returning to Perth, Howard served as Executive Editor of WA Business News and now spends his time as an advisor and investor, having played key roles in several M&A and reverse takeover transactions.

Other current directorships:

4DS Memory Limited

Spenda Limited (Formerly Cirralto Limited)

Singular Health Group Limited

Former directorships (last 3 years):

Vortiv Limited (resigned 19 April 2021)

IMEXHS Limited (resigned 30 April 2020)

Special responsibilities:

Nil

Interests in shares:

2,117,004 Ordinary shares

Interests in options:

128,085 Options expiring 31 March 2023 exercisable at \$0.90

Name: **Mr Joshua (Jim) Landau**
Title: Non-Executive Director (Appointed 1 October 2021)
Qualifications: FCPA, FINSIA, AICD, BEE (Hon)
Experience: Mr Landau has over 40 years' experience as a technology entrepreneur and mentor and brings significant experience as both a senior leader and director of numerous listed and unlisted companies. He currently serves as a Chair for an Australian TEC group of managing directors from diverse industries and is a non-executive director of the private equity Leading Technology Group and Banxa Inc, a listed crypto payments service provider.

Mr Landau was the co-founder of one of Australia's first listed software companies, Software Corporate of Australia, which was listed on the second Board of the ASX and was the managing director of Australia's first main board listed IT services company, Datronics Corporation. He was the former chairman of Centricom the developer of the Poli Payments platform, a director of Collaborate Corporation and as director or advisor to several other cutting edge technology companies, including those involved with the emerging UAV industry.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Special responsibilities: Nil
Interests in shares: 80,000 Ordinary shares
Interests in options: Nil

Information on Key Management

Name: **Mr Yoav Amitai**
Title: Chief Executive Officer
Qualification: BSc Mechanical Engineering
Experience: Yoav has been with ElSight for six years. Prior to becoming the Company's Chief Executive Officer, most recently as Chief Operating Officer and as Chief Innovation & Product Officer before that.

With a degree in Mechanical Engineering from the Ben-Gurion University of the Negev and a rich resume that includes serving as General Manager of Agor Engineering, Yoav brings extensive managerial, business strategy, and technical experience to the ElSight table. Yoav played a major part in initiating and executing ElSight's strategic transition from project-based to product-oriented company, leveraging its advanced technology and shaping its technological and business vision. Yoav is well-versed in product design, manufacturing, and "creative engineering" solutions and is a perfect fit to lead ElSight's team.

Name: **Mr Roee Kashi**
Title: Chief Technology Officer
Qualification: -
Experience: Roee commenced his career in the Israeli Defence Force and has over nine years of experience and expertise in building and developing digital video systems.

Roee has been responsible for some major technological achievements including the development of the core software of El-Sight Israel's digital video recorder that is responsible for video encoding and transmission, user interface design and construction of the system, handheld software development (Pocket PC, Smartphone), moving cameras, smart searches, and send notification email recordings to name a few.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Information on Company secretary

Name: **Mr Mark Licciardo**
Qualifications: B.Bus (Acc), GradDip CSP, FGIA, FCIS, FAICD
Experience: Mr Licciardo is the founder of Mertons Corporate Services, now part of Acclime Australia and is responsible for Acclime Australia's Listed Services Division.

Widely recognised as a leader in his field, Mark has extensive experience working with boards of high profile ASX-listed companies guiding and implementing effective corporate governance practices.

He is also an ASX-experienced director and chair of public and private companies, with expertise in the listed investment, infrastructure, bio-technology and digital sectors. He currently serves as a director on a number of Australian company boards as well as foreign controlled entities and private companies.

During his executive career, Mark held roles in banking and finance, funds management, investment and infrastructure development businesses, including being the Company Secretary for ASX:100 companies Transurban Group and Australian Foundation Investment Company Limited.

Meetings of Directors

The number of formal meetings of Directors held during the period and the number of meetings attended by each director was as follows:

		DIRECTORS' MEETINGS Number eligible to attend	DIRECTORS' MEETINGS Number attended
Ami Shafran	Appointed 2 June 2017	10	10
David Furstenberg	Appointed 2 June 2017	10	10
Howard Digby	Appointed 13 December 2016	10	10
Joshua Landau	Appointed 1 October 2021	10	10

Options

Unissued shares under option

At the date of this report, the unissued ordinary shares of Elsieht Limited under option are as follows:

Expiry Date	Issue Date	Status	Exercise Price	Number Under Option
31 March 2023	15 December 2020	Listed	A\$0.90	23,222,653
31 July 2023	2 October 2018	Unlisted	A\$0.675	55,000
31 July 2023	2 October 2018	Unlisted	A\$0.60	200,000
1 December 2023	1 December 2018	Unlisted	A\$0.60	50,000
23 June 2024	12 August 2019	Unlisted	A\$0.35	100,000
23 April 2025	29 June 2020	Unlisted	A\$0.28	949,999
15 May 2025	29 June 2020	Unlisted	A\$0.34	150,000
12 June 2025	29 June 2020	Unlisted	A\$0.32	100,000
18 July 2025	18 January 2023	Unlisted	A\$0.37	50,000
27 July 2025	23 September 2020	Unlisted	A\$0.30	75,000
1 February 2026	2 February 2021	Unlisted	A\$0.43	160,000
14 September 2026	15 September 2021	Unlisted	A\$0.42	611,000
14 September 2026	15 September 2021	Unlisted	A\$0.48	1,100,000
14 December 2026	15 December 2021	Unlisted	A\$0.38	250,000
14 December 2026	15 December 2021	Unlisted	A\$0.44	200,000
25 April 2027	26 April 2022	Unlisted	A\$0.43	200,000
25 April 2027	26 April 2022	Unlisted	A\$0.49	300,000
25 May 2027	26 May 2022	Unlisted	A\$0.48	3,583,452
30 August 2027	21 September 2022	Unlisted	A\$0.37	3,222,000
18 January 2028	18 January 2023	Unlisted	A\$0.37	43,000
				<u>34,622,104</u>

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Shares issued on the exercise of options

During the year ended 31 December 2022, the following options were exercised and converted to ordinary shares:

- 16,728,000 options exercisable at A\$0.20 on or before 2 June 2022; and
- 120,834 options exercisable at A\$0.28 on or before 23 April 2025.

During the year ended 31 December 2021: 129,166 options exercisable at A\$0.28 on or before 23 April 2025 were exercised and converted to Ordinary Shares.

No amounts are unpaid on any of the Shares.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Indemnifying Officers

The Company indemnifies each of its Directors, officers and company secretary. The Company indemnifies each director or officer to the maximum extent permitted by the *Corporations Act 2001* from liability to third parties, except where the liability arises out of conduct involving lack of good faith, and in defending legal and administrative proceedings and applications for such proceedings.

The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the *Corporations Act 2001*. The Company must also use its best endeavours to insure a Director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

Insurance Premiums

During the year the Company paid insurance premiums to insure directors and officers against certain liabilities arising out of their conduct while acting as an officer of the Group. Under the terms and conditions of the insurance contract, the nature of the liabilities insured against and the premium paid cannot be disclosed.

Environmental regulation

In the normal course of business, there are no environmental regulations or requirements that the Company is subject to.

Likely developments and expected results of operations

The Company's principal continuing activity is the development and commercialisation of the Halo. The Company's future developments, prospects and business strategies are to continue to develop and commercialise this technology.

Matters subsequent to the reporting period

On 18 January 2023 the Company issued a further 93,000 ESOP options with an exercise price of A\$0.37.

No other matter or circumstance has arisen since 31 December 2022 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.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, BDO Audit (WA) Pty Ltd, as part of the terms of its audit engagement agreement against claims by third parties arising from their report on the financial report.

Non-audit services

During the year, BDO Audit (WA) Pty Ltd, the Company's auditor provided no non-audit services.

In the event that non-audit services are provided by BDO (WA) Pty Ltd, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the *Corporations Act 2001*. These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Auditor's independence declaration

The auditor's independence declaration for the year ended 31 December 2022 has been received and can be found on page 22 of the financial report.

Remuneration report (audited)

This remuneration report for the year ended 31 December 2022 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth), as amended (**Act**) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

- (1) Introduction
- (2) Remuneration governance
- (3) Executive remuneration governance
- (4) Non-executive Director fee arrangements
- (5) Details of remuneration
- (6) Additional disclosures relating to equity instruments
- (7) Loans from key management personnel (KMP) and their related party
- (8) Other transactions and balances with KMP and their related parties
- (9) Voting of shareholders at last year's annual general meeting

1. Introduction

Key Management Personnel (**KMP**) have authority and responsibility for planning, directing and controlling the major activities of the Group. KMP comprise the directors of the Company and identified key management personnel.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Board may seek independent advice on the appropriateness of compensation packages, given trends in comparable companies both locally and internationally and the objectives of the Group's compensation strategy.

Key management personnel covered in this report are as follows:

Name	Status	Appointed	Resigned
Major General (ret) Ami Shafran	Non-Executive Chairman	2 June 2017	-
Mr David Furstenberg	Executive Director	2 June 2017	-
Mr Howard Digby	Non-Executive Director	13 December 2016	-
Mr Joshua Landau	Non-Executive Director	1 October 2021	-
Mr Yoav Amitai	Chief Executive Officer	1 November 2020	-
Mr Roee Kashi	Chief Technology Officer	2 June 2017	-

2. Remuneration governance

The Directors believe the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of a separate remuneration committee. Accordingly, all matters are considered by the full Board of Directors, in accordance with a remuneration committee charter.

During the financial year, the Company did not engage any remuneration consultants.

3. Executive Remuneration Arrangements

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages may include a mix of fixed compensation and equity-based compensation, as well as employer contributions to superannuation funds. Shares and options may only be issued subject to approval by shareholders in a general meeting.

At the date of this report the Company has three appointed executives, Mr David Furstenberg as Executive Director, Mr Yoav Amitai as Chief Executive Officer and Mr Roei Kashi as Chief Technology Officer. The terms of their Employment Agreements with Elsieht Limited are summarised in the following table.

Executive Name	Services Agreement Summary
Mr David Furstenberg	- Executive salary of AU \$50,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$33,000 per annum). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with Group's reimbursement policies. - The agreement commenced on 1 June 2017 and may be terminated by either party with no notice period.
Mr Yoav Amitai	- For the year ended 31 December 2022, executive salary of ILS 600,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$169,000 per annum). - From 1 January 2023, executive salary of ILS 660,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$186,000). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with Group's reimbursement policies. - The agreement commenced on 1 November 2020 and may be terminated by either party on 104 days' notice. It may be terminated immediately with justifiable cause.
Mr Roei Kashi	- For the year ended 31 December 2022, executive salary of ILS 720,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$203,000 per annum). - From 1 January 2023, executive salary of ILS 756,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$213,000). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with Group's reimbursement policies. - The agreement commenced on 6 April 2017 and may be terminated by either party on 180 days' notice. It may be terminated immediately with justifiable cause.

As the Group is in the early stages of operations the Board does not consider the Group's earnings or earnings related measures to be an appropriate key performance indicator (KPI). In considering the relationship between the Group's remuneration policy and the consequences for the Company's shareholder wealth, changes in share price are analysed as well as measures such as successful completion of business development and corporate activities.

Employee Share Option Plan

The Group has established and maintains the Elsieht Limited Employee Share Option Plan (**Plan**) to provide ongoing incentives to Eligible Participants of the Company. Eligible Participants include:

- a Director (whether executive or non-executive) of any Group Company;
- a full or part time employee of any Group Company;
- a casual employee or contractor of a Group Company; or
- a prospective participant, being a person to whom the offer was made but who can only accept the Offer if arrangement has been entered into that will result in the person becoming an Eligible Participant.

The Board adopted the Plan to allow Eligible Participants to be granted Options to acquire shares in the Company.

The purpose of the Plan is to assist in the reward and motivation of Eligible Participants and link the reward of Eligible Participants to performance and the creation of shareholder value. It is designed to align the interest of Eligible Participants more closely to the interests of shareholders by providing an opportunity for Eligible Participants to receive shares. It provides the Eligible Participants with the opportunity to share in any future growth in value of the Company and provides greater incentives for Eligible Participants to focus on the Company's longer-term goals. There were 5,033,452 Options issued to key management personnel or their related parties under the Plan during the 2022 financial year (2021: Nil).

Group Performance

The table below shows the performance of the Group over the last 5 reporting periods:

Financial Year	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Loss for the year	4,306,433	6,043,694	3,880,688	3,192,433	4,206,972
Loss per share (cents)	2.97	4.53	3.62	3.33	4.51
Share price	A\$0.34	A\$0.38	A\$0.425	A\$0.39	A\$0.70

4. Non-executive Director fee arrangement

The Board policy is to remunerate Non-executive Directors at a level to comparable companies for time, commitment, and responsibilities. Non-executive Directors may receive performance related compensation. Directors' fees cover all main Board activities and membership of any committee. The Board has no established retirement or redundancy schemes in relation to Non-executive Directors.

The maximum aggregate amount of fees that can be paid to Non-executive Directors is presently limited to an aggregate of AU\$300,000 (US\$203,721) per annum and any change is subject to approval by shareholders at the General Meeting. Fees for Non-executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

Total fees for the Non-executive Directors for the financial year were US\$116,060 (2021: US\$129,584) and cover main Board activities only. Non-executive Directors may receive additional remuneration for other services provided to the Group.

All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

5. Details of remuneration

The Key Management Personnel of Elsieht Limited includes the current and former Directors of the Company and Key Management Personnel of Elsieht during the year ended 31 December 2022.

31 December 2022	Short term salary, fees & commissions	Post-employment retirement benefits	Non-monetary benefits	Bonuses	Other ⁽ⁱ⁾	Share-based payments ⁽ⁱⁱ⁾	Total	Performance based remuneration ⁽ⁱⁱⁱ⁾
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
Directors:								
Ami Shafran	34,927	-	-	-	-	656	35,583	2%
David Furstenberg	34,927	-	-	-	-	1,639	36,566	4%
Howard Digby	34,923	-	-	-	-	-	34,923	-
Joshua Landau	41,914	4,296	-	-	-	-	46,210	-
Key management:								
Yoav Amitai	179,380	26,485	14,951	-	16,003	138,887	375,706	37%
Roe Kashi	215,212	31,631	10,310	77,390	27,869	51,913	414,325	31%
Total	541,283	62,412	25,261	77,390	43,872	193,095	943,313	

⁽ⁱ⁾ Israeli social benefits.

⁽ⁱⁱ⁾ Share-based payment expense is recorded pro-rata over the vesting period. Refer to Section 6 Additional disclosures relating to equity instruments for further information.

⁽ⁱⁱⁱ⁾ Performance based remuneration relates to options issued as share based payments and bonuses.

31 December 2021	Short term salary, fees & commissions	Post-employment retirement benefits	Non-monetary benefits	Termination benefits	Other ⁽ⁱ⁾	Share-based payments ⁽ⁱⁱ⁾	Total	Performance based remuneration ⁽ⁱⁱⁱ⁾
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
Directors:								
Ami Shafran	37,025	-	-	-	-	2,728	39,753	7%
David Furstenberg	37,025	-	-	-	-	6,819	43,844	16%
Howard Digby	37,020	-	-	-	-	-	37,020	-
Joshua Landau	11,108	1,111	-	-	-	-	12,219	-
Peter Marks	43,320	-	-	-	-	-	43,320	-
Key management:								
Yoav Amitai	186,996	25,251	14,582	-	14,546	7,529	248,904	3%
Roe Kashi	205,688	29,972	10,765	-	26,805	12,881	286,111	5%
Total	558,182	56,334	25,347	-	41,351	29,957	711,171	

⁽ⁱ⁾ Israeli social benefits.

⁽ⁱⁱ⁾ Share-based payment expense is recorded pro-rata over the vesting period. Refer to Section 6 Additional disclosures relating to equity instruments for further information.

⁽ⁱⁱⁱ⁾ Performance based remuneration relates to options issued as share based payments.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed Remuneration		STI - cash bonus		LTI - Options	
	2022	2021	2022	2021	2022	2021
Directors:						
Ami Shafran	98%	93%	-	-	2%	7%
David Furstenberg	96%	84%	-	-	4%	16%
Howard Digby	100%	100%	-	-	-	-
Joshua Landau	100%	100%	-	-	-	-
Other Key Management Personnel:						
Yoav Amitai	63%	97%	-	-	37%	3%
Roe Kashi	69%	95%	18%	-	13%	5%

The US\$77,390 cash bonus paid to Roe Kashi on 2 June 2022 was at the discretion of the CEO in recognition of Roe's significant contributions to the Group, previously in his role as Vice President R&D and most recently in his current role as Chief Technology Officer. There were no specific performance criteria applied in determining the bonus value, rather the bonus has been awarded in recognition of Roe's achievements throughout his 13-year service period.

There were no bonuses in 2021.

6. Additional disclosures relating to equity instruments

KMP Shareholding

There were no shares issued as KMP remuneration during the 2022 financial year (2021: nil).

There were 5,033,452 options issued as KMP remuneration during the 2022 financial year (2021: nil).

The number of ordinary shares in Elsight Limited held by each KMP of the Group during the financial year is as follows:

	Balance at the start of the year	Shares purchased on market during the year	Options exercised and converted to shares during the year	Shares sold during the year	Balance at the end of the year
Directors:					
Ami Shafran	-	61,440	-	-	61,440
David Furstenberg	-	61,440	-	-	61,440
Howard Digby	2,052,004	65,000	-	-	2,117,004
Joshua Landau	-	80,000	-	-	80,000
Key Management:					
Yoav Amitai	-	-	-	-	-
Roe Kashi	2,894,775	505,536	8,743,000	(5,825,857)	6,317,454
Total	4,946,779	773,416	8,743,000	(5,825,857)	8,637,338

KMP Option holdings

Options awarded, vested and lapsed during the year

The tables below disclose the number of share options granted, vested or lapsed during the year.

Share options do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date.

The number of options over ordinary shares held by each KMP of the Group (and/or their related party) during the financial year is as follows:

	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year
<i>Options over ordinary shares</i>					
Directors:					
Ami Shafran	100,000	-	-	(100,000)	-
David Furstenberg	250,000	-	-	(250,000)	-
Howard Digby	128,085	-	-	-	128,085
Key management:					
Yoav Amitai	241,000	3,583,452	-	(26,000)	3,798,452
Roe Kashi	8,843,000	1,450,000	(8,743,000)	-	1,550,000
Total	9,562,085	5,033,452	(8,743,000)	(376,000)	5,476,537

During the year ended 31 December 2022, 8,743,000 options exercisable at A\$0.20 on or before 2 June 2022 were exercised and converted to Ordinary Shares. No amounts are unpaid on any of the Shares.

Details of vested and unvested options at year end is as follows:

	Vested and exercisable	Unvested and un-exercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Directors:			
Howard Digby	128,085	-	128,085
Key management:			
Yoav Amitai	177,500	3,620,952	3,798,452
Roe Kashi	75,000	1,475,000	1,550,000
Total	380,585	5,095,952	5,476,537

Terms and conditions of the share-based payment arrangements

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting are as follows:

Option class	Number granted	Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date ^(vii)	Vested %
ESOP Director Options	350,000	28/05/2018	(i)	09/10/2022	A\$0.60	US\$0.27	100.00%
ESOP Options	15,000	01/08/2018	(ii)	31/07/2023	A\$0.675	US\$0.29	100.00%
ESOP Options	100,000	24/06/2019	(iii)	23/06/2024	A\$0.35	US\$0.18	87.50%
ESOP Options	200,000	10/05/2020	(iv)	23/04/2025	A\$0.28	US\$0.22	75.00%
ESOP Options	3,583,452	26/05/2022	(v)	26/05/2027	A\$0.48	US\$0.17	-
ESOP Options	1,450,000	30/08/2022	(vi)	30/08/2027	A\$0.37	US\$0.18	-

(i) 50% of the 350,000 options vested on 2 October 2020, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. A total of 87,500 options vested during the year ended 31 December 2022, resulting in the options becoming fully vested during the year. There are no performance milestones applicable to the ESOP Options. The options expired unexercised on 9 October 2022.

(ii) 50% of the 15,000 options vested on 1 August 2020, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. A total of 2,813 options vested during the year ended 31 December 2022, resulting in the options becoming fully vested during the year. There are no performance milestones applicable to the ESOP Options.

(iii) 50% of the 100,000 options vested on 21 June 2021, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. A total of 25,000 options vested during the year ended 31 December 2022. There are no performance milestones applicable to the ESOP Options.

(iv) 50% of the 200,000 options vested on 23 April 2021, with the remaining 50% vesting over a period of 3 years quarterly. A total of 33,340 options vested during the year ended 31 December 2022. There are no performance milestones applicable to the ESOP Options.

(v) The 3,583,452 ESOP options were issued in 4 tranches of 895,863 Options each vesting subject to the achievement of the following Performance Milestones:

- *Tranche 1* – Revenue milestone of US\$3.0M in one (1) year in each of the years 2022 or 2023.
- *Tranche 2* – Closing 20-day Volume Weighted Average Price (VWAP) of A\$0.90 commencing 1 January 2023 until 31 December 2024, or closing 45- day VWAP of A\$0.90 until 31 December 2022.
- *Tranche 3* – Closing 20-day VWAP of A\$1.80 commencing 1 January 2023 until 31 December 2024, or closing 45-day VWAP of A\$1.80 until 31 December 2023.
- *Tranche 4* – Service condition only – 25% on 26 May 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter.

The Black Scholes option pricing model was used to determine the fair value of Tranches 1 and 4. The fair value of Tranches 2 and 3 was determined using a Monte Carlo simulation model.

The likelihood of achieving the Tranche 1 Performance Milestone and the Tranche 4 service condition has been assessed at 100%. The likelihood of achieving the Tranche 2 and 3 Performance Milestones is built into the Monte Carlo Simulation model.

(vi) 25% of the 1,450,000 options vests on 30 August 2023, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. Nil options vested during the year ended 31 December 2022. There are no performance milestones applicable to the ESOP Options.

(vii) Except as otherwise noted above, the value per option at grant date has been determined using a Black Scholes option pricing model. Where noted the options have been valued using Monte Carlo simulation models. Share-based payment expense is recorded pro-rata over the vesting period

7. Loans to key management personnel (KMP) and their related parties

There are no loans between the Group and key management personnel.

8. Other transactions and balance with KMP and their related parties

There were no other transactions with KMP or their related parties at 31 December 2022 or during the year.

At 31 December 2022 the following balances are recorded in relation to KMP or their related parties:

Key Management Personnel or Their Related Party	Nature of transaction	Prepayment balance US\$	Payable balance US\$
Ami Shafran	Director and consulting fees	5,093	-
David Furstenberg	Director and consulting fees	5,093	-
Yoav Amitai	Salary and salary related expenses	-	8,383
Roei Kashi	Salary and salary related expenses	-	8,558

9. Voting of shareholders at last year's annual general meeting

The Company received 99.84% "Yes" votes cast on its Remuneration Report for the 2021 financial year. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

REMUNERATION REPORT (END)

Signed in accordance with a resolution of the Board of Directors

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

David Furstenberg

Mr David Furstenberg
Executive Director

31 March 2023

DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF ELSIGHT LIMITED

As lead auditor for Elsight Limited for the year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Elsight Limited and the entity it controlled during the period.



Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd
Perth
31 March 2023

Elsight Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2022



	Note	2022 US\$	2021 US\$
Revenue from contracts with customers	4	823,241	574,014
Cost of sales		<u>(387,159)</u>	<u>(957,538)</u>
Gross profit/(loss)		<u>436,082</u>	<u>(383,524)</u>
Other income	14	217,980	-
Selling, general and administrative expenses	5	(4,451,842)	(5,379,986)
Net share-based payments expense	23	<u>(496,196)</u>	<u>(280,569)</u>
Loss before finance expense		<u>(4,293,976)</u>	<u>(6,044,079)</u>
Net finance expenses/(income)	6	<u>(12,457)</u>	<u>385</u>
Loss before income tax expense		<u>(4,306,433)</u>	<u>(6,043,694)</u>
Income tax expense	8	<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of Elsieht Limited		<u>(4,306,433)</u>	<u>(6,043,694)</u>
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation, net of tax	22	<u>(264,849)</u>	<u>149,226</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(264,849)</u>	<u>149,226</u>
Total comprehensive loss for the year attributable to the owners of Elsieht Limited		<u>(4,571,282)</u>	<u>(5,894,468)</u>
		Cents	Cents
Loss per share attributable to owners of the Company attributable to the owners of Elsieht Limited			
Basic loss per share	7	(2.97)	(4.53)
Diluted loss per share	7	(2.97)	(4.53)

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

Elsight Limited
Consolidated statement of financial position
As at 31 December 2022



	Note	2022 US\$	2021 US\$
Assets			
Current assets			
Cash and cash equivalents	11	5,194,794	1,990,057
Trade and other receivables	13	584,200	353,106
Inventory	14	951,942	853,338
Total current assets		6,730,936	3,196,501
Non-current assets			
Plant and equipment, net	15	140,114	202,598
Right-of-use assets	16	112,639	333,929
Intangible assets, net		21,319	95,254
Total non-current assets		274,072	631,781
Total assets		7,005,008	3,828,282
Liabilities			
Current liabilities			
Trade and other payables	17	854,552	577,005
Lease liabilities	18	87,089	216,087
Total current liabilities		941,641	793,092
Non-current liabilities			
Convertible notes	19	4,138,048	-
Lease liabilities	18	28,795	124,498
Provisions	20	47,028	78,427
Total non-current liabilities		4,213,871	202,925
Total liabilities		5,155,512	996,017
Net assets		1,849,496	2,832,265
Equity			
Issued capital	21	23,749,095	21,375,191
Reserves	22	1,511,909	2,590,315
Accumulated losses		(23,411,508)	(21,133,241)
Total equity		1,849,496	2,832,265

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

Elsight Limited
Consolidated statement of changes in equity
For the year ended 31 December 2022



	Issued capital US\$	Share-based payment Reserve US\$	Foreign Exchange Reserve US\$	Predecessor Accounting Reserve US\$	Accumulated losses US\$	Total equity US\$	
Balance at 1 January 2021	21,361,856	3,190,227	(646,416)	(296,796)	(15,176,042)	8,432,829	
Loss after income tax expense for the year	-	-	-	-	(6,043,694)	(6,043,694)	
Other comprehensive income for the year, net of tax	-	-	149,226	-	-	149,226	
Total comprehensive (loss)/income for the year	-	-	149,226	-	(6,043,694)	(5,894,468)	
Transactions with owners in their capacity as owners:							
Issue of Shares, net of transaction costs (note 21)	13,335	-	-	-	-	13,335	
Share-based payments (note 23)	-	280,569	-	-	-	280,569	
Exercise, expiry and cancellation of options	-	(86,495)	-	-	86,495	-	
Balance at 31 December 2021	21,375,191	3,384,301	(497,190)	(296,796)	(21,133,241)	2,832,265	
	Issued capital US\$	Share-based payment Reserve US\$	Foreign Exchange Reserve US\$	Predecessor Accounting Reserve US\$	Equity reserve US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 January 2022	21,375,191	3,384,301	(497,190)	(296,796)	-	(21,133,241)	2,832,265
Loss after income tax expense for the year	-	-	-	-	-	(4,306,433)	(4,306,433)
Other comprehensive loss for the year, net of tax	-	-	(264,849)	-	-	-	(264,849)
Total comprehensive loss for the year	-	-	(264,849)	-	-	(4,306,433)	(4,571,282)
Transactions with owners in their capacity as owners:							
Issue of Shares, net of transaction costs (note 21)	2,373,904	-	-	-	-	-	2,373,904
Share-based payments (note 23)	-	496,196	-	-	-	-	496,196
Exercise, expiry and cancellation of options	-	(2,028,166)	-	-	-	2,028,166	-
Financial instruments recognised in equity	-	-	-	-	718,413	-	718,413
Balance at 31 December 2022	23,749,095	1,852,331	(762,039)	(296,796)	718,413	(23,411,508)	1,849,496

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

	Note	2022 US\$	2021 US\$
Cash flows from operating activities			
Receipts from customers		965,095	487,027
Payments to suppliers and employees		(4,623,972)	(6,412,084)
Interest received		1,804	11,790
Interest paid		(14,227)	(10,423)
Net cash used in operating activities	12	(3,671,300)	(5,923,690)
Cash flows from investing activities			
Proceeds from disposal of plant and equipment	15	-	40,194
Purchase of plant and equipment		(3,532)	(42,690)
Conversion of short-term bank deposits to cash		-	108,524
Net cash (used in)/from investing activities		(3,532)	106,028
Cash flows from financing activities			
Repayment of borrowings		-	(54,681)
Proceeds from convertible notes		4,810,613	-
Net proceeds from the issue of shares		2,376,051	14,487
Principal elements of lease payments		(224,147)	(177,940)
Shareholder refunds		-	(33,935)
Net cash from/(used in) financing activities		6,962,517	(252,069)
Net increase/(decrease) in cash and cash equivalents		3,287,685	(6,069,731)
Cash and cash equivalents at the beginning of the financial year		1,990,057	7,924,309
Effects of exchange rate changes on cash and cash equivalents		(82,948)	135,479
Cash and cash equivalents at the end of the financial year	11	<u>5,194,794</u>	<u>1,990,057</u>

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

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Note 1. Basis of preparation

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entity (also referred to as **Group**). Elsight Limited is a company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity.

The financial statements were issued by the board of directors on 31 March 2023 by the directors of the Company.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (**AASBs**) (including Australian interpretations) adopted by the Australian Accounting Standard Board (**AASB**) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events, and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

b) Basis of Measurement and Reporting Conventions Including Capital Reorganisation

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded off to the nearest dollar unless stated otherwise.

On 2 June 2017 Elsight Limited ('ELS') completed a transaction with the shareholders of El-Sight Ltd to acquire 100% of the share capital of El-Sight Ltd. In accordance with Australian Accounting Standards, the acquisition did not meet the definition of a business combination as ELS was established for the sole purpose of facilitating the listing process and to acquire El-Sight Ltd by way of an equity swap. Common control entity accounting was applied at transaction date.

c) Going Concern

The financial statements are prepared on the going concern basis, which contemplates the continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business. For the year ended 31 December 2022, the Group recorded a net loss of US\$4,306,433 (31 December 2021: loss of US\$6,043,694) and had net cash outflows from operating activities of US\$3,671,300 (31 December 2021 : outflows of US\$5,923,690) and had net working capital of US\$5,789,295 (31 December 2021 : US\$2,403,409).

The directors believe that it is reasonably foreseeable that the Group will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- During the year ended 31 December 2022, the Group raised a total of US\$7,186,664 (net of related costs) through the issue of shares and convertible notes; and

The Directors have reviewed the cash flow forecast of the Group through March 2024. The cash flow forecast indicates that the Group will have sufficient cash on hand and cash flows from operations to meet working capital requirements over the 12 months from the date of signing this financial report.

c) Adoption of New and Amended Accounting Standards

The Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2022. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies. No retrospective change in accounting policy of material reclassification has occurred during the year.

Note 1. Basis of preparation (continued)

d) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (**OCI**) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investments retained
- Recognises any surplus or deficit in profit and loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

e) Predecessor Accounting

Business combinations involving entities under common control are accounted for using the predecessor accounting method.

Under this method;

- carrying values are not restated in the accounts of the acquiring entity, rather prior book values are maintained. As a result no fair value adjustments are recorded on the acquisition; and
- the carrying value of net assets or liabilities acquired is recorded as a separate element of equity.

Note 1. Basis of preparation (continued)

f) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States dollars which is the Group's presentational currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognized other comprehensive Income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of operations with functional currencies other than United States dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

g) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

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

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

h) Intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available, and
- the expenditure attributable to the product during its development can be reliably measured.

Note 1. Basis of preparation (continued)

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over a period of 3 – 7 years.

Research expenditure and development expenditure that do not meet the criteria in set out above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Note 2. New accounting standards for application in future periods

There are no Australian accounting standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2022 which are expected to have a material impact on the Group in future reporting periods.

Note 3. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the consolidated financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Share-based payment transactions

The Group initially 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. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them, as well as an assessment of the probability of achieving non-market based vesting conditions.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 23.

Trade receivables

Management assess impairment of the Group's trade receivables based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs for the expected credit loss model under AASB 9 and impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Assumptions made regarding the collectability of the Group's receivables are disclosed at note 13.

Convertible notes

Convertible notes on issue have been determined to contain a debt and equity component and are therefore accounted for as a compound financial instrument with the debt component recognised at fair value on inception then at amortised cost through profit and loss while the equity component has been measured at fair value and recorded in reserves. In assessing the terms of the convertible notes the Group has considered the conversion terms contained in the contractual agreement. Key inputs used to determine the allocation between debt and equity are as follows:

Face value per note	A\$0.30
Number of notes on issue at 31 December 2022	25,149,500
Coupon rate	8%
Time to maturity	2 years from the date of issue
Interest	Capitalised for settlement on maturity
Discount rate	17%

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Note 4. Revenue from contracts with customers

	2022	2021
	US\$	US\$
Revenue recognised at a point in time:		
- Sale of physical goods	665,309	452,468
- Data usage	76,262	-
Revenue recognised over a period of time:		
- Service level agreements and other services	60,234	121,546
- Halo as a service	21,436	-
Total revenue	<u>823,241</u>	<u>574,014</u>

The Group has recognised the following assets and liabilities related to contracts with customers:

- Contract liabilities	117,897	39,825
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There were no significant movements in contract assets or liabilities during the year.

Accounting policy for revenue

The Group revenues consist of the following elements:

- physical products which are sent to the customer, where revenue is recognised upon shipment or arrival of goods, dependent on the terms that have been agreed with the customer.
- installation fees, which are recognised upon the completion of product installation; and
- other revenue including cloud services fees which are recognised over the service period; software license fees which are recognised over the license period; and service level agreements which are recognised over the agreement period.

In relation to cloud services, software license and service level agreements, the Group recognises a contract liability where payments received exceed the services rendered.

The Group has no material contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Revenue is measured at the transaction price allocated to the performance condition. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

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Note 5. Selling, general and administrative expenses

	2022	2021
	US\$	US\$
Research	1,683,450	1,703,093
Sales, marketing and exhibitions	877,830	1,068,912
Salaries and related expenses	661,287	516,773
Professional services	447,855	425,843
Office expenses	211,792	245,341
(Reversal of bad debts)/bad debts	(15,151)	725,190
Amortisation of right of use asset	221,386	184,347
Depreciation of plant and equipment and amortisation of intangible asset	110,162	120,069
Travel	71,232	51,953
Exchange rate differences	(19,810)	85,971
Other expenses	201,809	252,494
	4,451,842	5,379,986

Accounting policy for operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

Note 6. Finance expenses/(income)

	2022	2021
	US\$	US\$
Interest income	(1,804)	(11,790)
Interest on borrowings and bank fees	7,095	770
Implied interest on leases	7,166	10,635
	12,457	(385)

Note 7. Loss per share

	2022	2021
	US\$	US\$
Loss after income tax attributable to the owners of Elsieht Limited	(4,306,433)	(6,043,694)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	144,876,769	133,373,831
Weighted average number of ordinary shares used in calculating diluted earnings per share	144,876,769	133,373,831
	Cents	Cents
Basic loss per share	(2.97)	(4.53)
Diluted loss per share	(2.97)	(4.53)

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Elsieht 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.

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Note 7. Loss per share (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.

Note 8. Income tax

The financial accounts for the year ended 31 December 2022 comprise the results of Elsieht Australia and El-Sight Israel. The legal parent is incorporated and domiciled in Australia where the applicable tax rate is 30% (2021: 30%). The applicable tax rate in Israel is 23% (2021: 23%).

	2022 US\$	2021 US\$
<i>(a) Income tax expense</i>		
Current tax	-	-
Deferred tax	-	-
Aggregate income tax expense	-	-
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(4,306,433)	(6,043,694)
Tax at the statutory tax rate of 25.49% (2021: 27.03%)	(1,097,710)	(1,633,610)
<i>Non-deductible items</i>		
Non-deductible expenditure	268,872	140,617
Deferred tax assets not recognised	828,838	1,492,993
Deferred tax assets		
Investments and loans	5,272,447	4,878,473
Accruals	5,194	5,443
Provisions	53,994	48,873
Tax losses	4,257,943	3,166,014
Less deferred tax assets not recognised	(9,589,578)	(8,098,803)
Deferred tax liabilities		
Other	-	-
Net deferred tax liabilities	-	-
Income tax expense	-	-

Carry forward losses

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 31 December 2022 because the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

Note 8. Income tax (continued)

Accounting Policy for income tax

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Note 9. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 27.

a) Key Management Personnel Compensation

The totals of remuneration paid to KMP during the year are as follows:

	2022 US\$	2021 US\$
Short-term salary and fees	541,283	558,182
Retirement benefits	62,412	56,334
Non-monetary benefits	25,261	25,347
Bonuses	77,390	-
Other	43,872	41,351
Share based payments	193,095	29,957
Total KMP Compensation	943,313	711,171

Note 9. Related party transactions (continued)

b) Other related party transactions

There were no other transactions with related parties during the year ended 31 December 2022 (2021: Nil).

As at 31 December 2022 the following balances are recorded in relation to KMP or their related parties:

Key management personnel or their related party	Nature of transaction	Prepayment balance		Payable balance	
		2022	2021	2022	2021
		US\$	US\$	US\$	US\$
Ami Shafran	Director fees	5,093	-	-	3,023
David Furstenberg	Director fees	5,093	-	-	3,023
Yoav Amitai	Salary and salary related expenses	-	-	8,383	9,763
Roe Kashi	Salary and salary related expenses	-	-	8,558	8,307

c. Loans from key management personnel (KMP) and their related parties

There were no loans to or from related parties at the current and previous reporting date or during the financial year.

Note 10. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2022 US\$	2021 US\$
Auditor remuneration		
- Auditing and reviewing the financial reports (BDO) - Australia	40,167	31,555
- Auditing and reviewing the financial reports (BDO) - Israel	25,000	22,500
	<u>65,167</u>	<u>54,055</u>

Note 11. Cash and cash equivalents

	2022 US\$	2021 US\$
CURRENT		
Cash at bank - unrestricted	5,155,378	1,845,217
Cash at bank - restricted	39,416	144,840
Total cash and cash equivalents in the consolidated statement of cash flows	<u>5,194,794</u>	<u>1,990,057</u>

Restricted cash relates to bank deposits in place as security guarantees.

The Group's exposure to the risks associated with cash are disclosed in Note 25.

Accounting policy for 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.

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Note 12. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	2022 US\$	2021 US\$
Loss after income tax expense for the year	(4,306,433)	(6,043,694)
Non-cash flows in loss after income tax:		
Share-based payments	496,196	280,569
Amortisation of right of use lease asset	221,386	184,347
Depreciation of plant and equipment and amortisation of intangible assets	110,162	120,069
Loss on disposal of plant and equipment	-	11,601
Change in assets and liabilities:		
Decrease/(increase) in trade and other receivables	(23,104)	577,954
Increase in inventory	(207,169)	(427,177)
Increase/(decrease) in trade and other payables	24,115	(537,537)
Increase/(decrease) in provisions	13,547	(89,822)
Net cash used in operating activities	<u>(3,671,300)</u>	<u>(5,923,690)</u>

Non-cash investing and financing activities

There were no material non-cash investing and financing activities during the year ended 31 December 2022 or 2021.

Note 13. Trade and other receivables

	2022 US\$	2021 US\$
CURRENT		
Trade and other receivables	224,123	243,134
Loss allowance	(24,493)	(32,031)
Short term deposits	15,671	51,183
Prepaid expenses	114,313	90,820
Other receivables	8,038	-
Convertible note receivables ¹	246,548	-
	<u>584,200</u>	<u>353,106</u>

All amounts are short-term. The net carrying value of trade and other receivables is considered a reasonable approximation of fair value. The Group's exposure to the risks associated with trade and other receivables is disclosed in Note 25.

¹ As disclosed at Note 19, the Group issued 25,149,500 convertible notes on 30 December 2022. At 31 December 2022, the Group has recorded a receivable of US\$246,548 in relation convertible notes proceeds held on trust by the Broker for settlement of costs which have been accrued within trade and other payables at 31 December 2022.

Note 13. Trade and other receivables (continued)

Accounting policy for trade and other receivables

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 45 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional which is considered to be fair value; none of the Group's trade receivables contain a financing component. The Group holds the trade receivables with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the Group's past history, existing market conditions and forward-looking estimates at the end of each reporting period.

Note 14. Inventory

	2022 US\$	2021 US\$
Inventory	951,942	853,338

From 31 December 2021 to 31 December 2022 the Group's inventory balance has increased by US\$217,980 due to bad debts recovered in the form of inventory. The Group has recognised other income of US\$217,980 in relation to recoveries of bad debts at 31 December 2022.

From 2020 - 2023, there has been a global chip shortage primarily due to COVID 19. The Group has increased inventory levels to ensure it has an adequate supply on hand in the event of longer than expected lead times and in preparation for an anticipated increase in 2023.

The annual expense on write downs of inventory to net realisable value amounted to US\$7,353 (2021: US\$73,002).

Inventories recognised as an expense during the year ended 31 December 2022 amounted to US\$220,495 (31 December 2021 – US\$434,349).

Accounting policy for inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average principle and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Note 15. Plant and equipment

	2022 US\$	2021 US\$
Cost	442,633	497,029
Accumulated depreciation	(302,519)	(294,431)
Net carrying amount	140,114	202,598

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Note 15. Plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Computers US\$	Motor vehicles US\$	Office furniture and equipment US\$	Installation and leasehold improvements US\$	Total US\$
Balance at 1 January 2021	11,624	76,473	61,561	105,549	255,207
Additions	18,300	-	12,224	11,641	42,165
Disposals	-	(52,233)	-	-	(52,233)
Foreign currency translation adjustment	1,642	564	2,551	4,013	8,770
Depreciation expense	(13,335)	(8,850)	(12,863)	(16,263)	(51,311)
Balance at 31 December 2021	18,231	15,954	63,473	104,940	202,598
Additions	3,531	-	-	-	3,531
Foreign currency translation adjustment	(8,982)	(7,821)	(10,733)	(14,770)	(42,306)
Depreciation expense	(2,281)	(1,854)	(7,377)	(12,197)	(23,709)
Balance at 31 December 2022	10,499	6,279	45,363	77,973	140,114

Accounting policy for property, plant and equipment

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.

Accounting policy for depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives for the current and comparative periods are as follows:

- Computers – 3 years
- Furniture and equipment – 7-17 years
- Motor vehicles – 7 years

Leasehold improvements are depreciated over the shorter of the lease period or the useful life of the leasehold improvement.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

Note 16. Right-of-use assets

	2022 US\$	2021 US\$
Motor vehicles	231,438	229,198
Less: Accumulated amortisation	(150,721)	(92,924)
	<u>80,717</u>	<u>136,274</u>
Office space at cost	261,777	296,203
Less: Accumulated amortisation	(229,855)	(98,548)
	<u>31,922</u>	<u>197,655</u>
	<u><u>112,639</u></u>	<u><u>333,929</u></u>

The right of use assets recognised at 31 December 2022 and 2021 relate to motor vehicle leases and office space.

The Group's leasing activities and how these are accounted for

The Group leases an office in Or Yehuda and various motor vehicles. Rental contracts are typically made for fixed period of 1 – 3 years but may have extension options. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowings purposes.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in the financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options

Extension and termination options are included in the Group's office lease, exercisable at the option of the Group.

Note 16. Right-of-use assets (continued)

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For the Group's leases, the following factors are normally the most relevant:

- If there are significant penalty payments to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

There are no extension options in office and vehicles leases that have not been included in the lease liability because the Group expects to exercise the extension options.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. There was no impact of revising lease terms in current or previous financial year.

Accounting policy for right-of-use assets

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities included the net present value of fixed lease payments.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Note 17. Trade and other payables

	2022 US\$	2021 US\$
CURRENT		
Trade payables	64,332	86,718
Other payables and accrued expenses	672,323	450,462
Contract liability	117,897	39,825
	<u>854,552</u>	<u>577,005</u>

All amounts are short-term. The carrying values of trade payables and other payables are considered to approximate fair value. The Group's exposure to the risks associated with trade and other payables are disclosed in Note 25.

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Note 17. Trade and other payables (continued)

Accounting policy for trade and other payables

Liabilities for trade creditors and other amounts carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest, when charged by the lender, is recognised as an expense on an accruals basis.

Note 18. Lease liabilities

	2022 US\$	2021 US\$
Current	87,089	216,087
Non-current	28,795	124,498
	<u>115,884</u>	<u>340,585</u>

The lease liabilities relate to the Group's office lease and motor vehicle leases. Lease liabilities have been measured at the present value of the lease payments, discounted using the Group's incremental borrowing rate in effect on lease execution date. Incremental borrowing rates applied range from 3.15% – 3.23%.

Accounting policy for 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.

Note 19. Convertible notes

	2022 US\$	2021 US\$
NON-CURRENT		
Net carrying amount of convertible notes	<u>4,138,048</u>	<u>-</u>

On 30 December 2022 the Group issued 25,149,500 convertible notes with a face value of A\$0.30 each, for total proceeds of US\$5,123,481. The notes are convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable on 30 December 2024. The conversion rate is 1 ordinary share for each note held, subject to certain anti-dilution clauses that may alter the conversion ratio in certain circumstances.

The notes bear interest at 8%, with interest capitalised for payment on the earlier of redemption or conversion.

The convertible notes are secured over all assets of the Company and its subsidiary.

A reconciliation of the convertible note facility at inception is as follows:

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Note 19. Convertible notes (continued)

	At inception US\$
Face value of convertible notes	5,123,481
Transaction costs	(227,522)
Conversion option recognised in equity, net	(757,911)
Value recognised on inception	4,138,048

The fair value of the liability recognised on inception has been determined based on the net present value of convertible note contractual cashflows using a discount rate of 17%. The difference between the fair value of the liability component and the face value of convertible notes has been recognised in equity on inception and will be recorded to profit or loss as effective interest over the life of the convertible notes. Transaction costs incurred in relation to the convertible note have been recognised pro-rata against the liability and equity components.

Accounting policy for convertible notes

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.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Note 20. Provisions

	2022 US\$	2021 US\$
NON-CURRENT		
Accrued severance pay	50,185	99,310
Severance pay fund	(3,157)	(20,883)
	47,028	78,427
Opening net carrying amount	78,427	117,453
Decrease in provision	(49,124)	(41,617)
Severance pay fund utilised	17,725	2,591
Closing net carrying amount		
	47,028	78,427

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Note 20. Provisions (continued)

Post-employment benefits

The Company has a post-employment benefit plan in place in accordance with its obligations under Israeli employment law. Under Israeli employment law, in the event of termination of an employee, the Group is obligated to pay the employee their last monthly salary multiplied by the number of years the employee was employed. The value of this severance pay obligation is recorded net of accumulated severance fund benefits as a liability for employees' severance benefits in the Group's statement of financial position.

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

Equity-settled compensation

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. The fair value of performance right options is determined using the satisfaction of certain performance criteria (Performance Milestones). The number of shares option and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The fair value is determined using Black Scholes and Monte Carlo simulation models.

Accounting policy for provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Note 21. Issued capital

	2022 Shares	2021 Shares	2022 US\$	2021 US\$
Share capital	<u>150,319,581</u>	<u>133,470,748</u>	<u>23,749,095</u>	<u>21,375,191</u>
Details	Date	Shares	Issue price	US\$
Balance	1 January 2021	133,341,582		21,361,856
Issue of shares on conversion of options	1 September 2021	50,000	US\$0.20	10,241
Issue of shares on conversion of options	5 October 2021	50,000	US\$0.20	10,187
Issue of shares on conversion of options	14 November 2021	29,166	US\$0.21	5,984
Costs of capital raising		-		(13,077)
Balance	31 December 2021	133,470,748		21,375,191
Issue of shares on conversion of options	24 January 2022	54,166	US\$0.20	10,881
Issue of shares on conversion of options	22 April 2022	13,040,720	US\$0.15	1,933,078
Issue of shares on conversion of options	23 May 2022	3,687,280	US\$0.14	519,162
Issue of shares on conversion of options	3 August 2022	66,667	US\$0.20	12,971
Cost of capital raising		-		(102,188)
Balance	31 December 2022	150,319,581		23,749,095

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Note 21. Issued capital (continued)

Capital management

Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet research and development programs and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

Accounting policy for equity

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Note 22. Reserves

	2022 US\$	2021 US\$
Share Based Payment Reserve	1,852,331	3,384,301
Foreign Exchange Reserve	(762,039)	(497,190)
Predecessor Accounting Reserve	(296,796)	(296,796)
Convertible note reserve	718,413	-
	<u>1,511,909</u>	<u>2,590,315</u>
a) Share Based Payment Reserve	2022 US\$	2021 US\$
34,541,104 Options (31 December 2021: 46,571,819 Options)	<u>1,852,331</u>	<u>3,384,301</u>

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Note 22. Reserves (continued)

b) Movement in Share Based Payment Reserve	No	US\$
Opening balance at 1 January 2021	43,885,013	3,190,227
Expense of options issued in prior periods, prior to cancellations	-	151,934
Issue of ESOP options	210,000	14,577
Issue of ESOP options	180,000	15,991
Issue of ESOP options	100,000	7,834
Issue of ESOP options	1,045,000	31,520
Issue of ESOP options	2,590,000	95,101
Issue of ESOP options	250,000	1,233
Issue of ESOP options	200,000	950
Options exercised and converted to fully paid ordinary shares	(129,166)	(28,386)
Expiry of options	(625,360)	(18,518)
Vested options cancelled on termination of employment	(86,000)	(39,591)
Unvested options cancelled on termination of employment	(1,047,668)	(38,571)
Closing balance at 31 December 2021	46,571,819	3,384,301
Expense of options issued in prior periods, prior to cancellations	-	313,303
Issue of ESOP options	200,000	10,792
Issue of ESOP options	300,000	15,379
Issue of ESOP options	3,583,452	135,029
Issue of ESOP options	3,222,000	110,128
Options exercised and converted to fully paid ordinary shares	(16,848,834)	(1,762,156)
Expiry of options	(574,000)	(211,739)
Vested options cancelled on termination of employment	(219,201)	(54,272)
Unvested options cancelled on termination of employment	(1,694,132)	(88,434)
Closing balance at 31 December 2022	34,541,104	1,852,331
Share based payment options on issue at 31 December 2022 have a weighted average exercise price of AUD\$0.74 (2021: AUD\$0.58) and a weighted average remaining contractual life of 1.47 years (2021: 1.31 years).		
	2022	2021
	US\$	US\$
c) Foreign Exchange Reserve	(762,039)	(497,190)
The foreign currency translation reserve records exchange differences arising on translation from functional currency to presentation currency.		
	2022	2021
	US\$	US\$
d) Predecessor Accounting Reserve	(296,796)	(296,796)
The reserve arises from the capital reorganisation and records the net liabilities of Elsieht Limited as at the acquisition date of 2 June 2017.		
	2022	2021
	US\$	US\$
e) Equity Reserve	718,413	-

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Note 22. Reserves (continued)

The equity reserve holds the equity component of the convertible notes and is not remeasured from inception. This value will remain in the reserve until the convertible notes are converted or repaid.

Note 23. Share-based payments

Options issued in Prior Periods

Options issued in prior periods that impact the year ended 31 December 2022 are as follows:

Description	Grant date	Exercise price	Expiry date	Options on issue at 31 Dec 2022	Vesting conditions	Net pro-rata income/ (expense) at 31 Dec 2022
ESOP Options	26/04/2018	\$0.745	04/03/2023	12,000	(i)	(9)
Director Options	28/05/2018	\$0.60	09/10/2022	-	(ii)	(3,016)
ESOP Options	01/08/2018	\$0.675	31/07/2023	55,000	(iii)	96
ESOP Options	24/06/2019	\$0.35	23/06/2026	100,000	(iv)	(811)
ESOP Options	10/05/2020	\$0.28	23/04/2025	749,999	(v)	(19,404)
ESOP Options	30/07/2020	\$0.28	23/04/2025	-	(ii)	3,768
ESOP Options	09/08/2020	\$0.30	27/07/2025	75,000	(vi)	(9,431)
ESOP Options	02/02/2021	\$0.43	01/02/2026	160,000	(vii)	(16,026)
ESOP Options	10/03/2021	\$0.52	09/03/2026	-	(ii)	15,991
ESOP Options	14/04/2021	\$0.50	13/04/2026	-	(ii)	7,834
ESOP Options	15/09/2021	\$0.42	14/09/2026	611,000	(viii)	(69,054)
ESOP Options	15/09/2021	\$0.48	14/09/2026	1,100,000	(viii)	(85,966)
ESOP Options	15/12/2021	\$0.38	14/12/2026	250,000	(ix)	(27,588)
ESOP Options	15/12/2021	\$0.44	14/12/2026	200,000	(ix)	(21,253)
				<u>3,312,999</u>		<u>(224,869)</u>

(i) Options became fully vested on 5 March 2022.

(ii) Options cancelled on termination of employment during the year ended 31 December 2022.

(iii) Options became fully vested on 1 August 2022.

(iv) 50% on 24 June 2021 and an additional 6.25% at the end of each quarter of continuous service thereafter.

(v) 50% on 23 April 2021 and an additional 4.17% at the end of each quarter of continuous service thereafter.

(vi) 50% on 28 July 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter.

(vii) 50% on 2 February 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter.

(viii) 25% on 15 September 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter.

(ix) 25% on 15 December 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter.

Share Based Payments Issued During the Year Ended 31 December 2022

During the year ended 31 December 2022 the Group recorded the following share based payments:

Note 23. Share-based payments (continued)

- The issue of 200,000 Employee Share Plan Options exercisable at A\$0.43, on or before 25 April 2027 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 26 April 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US\$10,792 recorded at 31 December 2022. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued.
- The issue of 300,000 Employee Share Plan Options exercisable at A\$0.49, on or before 25 April 2027 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 26 April 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US\$15,379 recorded at 31 December 2022. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued.
- The issue of 3,583,452 Employee Share Plan Options exercisable at A\$0.48, on or before 26 May 2027 to Yoav Amitai, CEO of the Group, in 4 tranches of 895,863 Options vesting subject to the achievement of the following Performance Milestones:
 - *Tranche 1* – Revenue milestone of US\$3.0M in one (1) year in each of the years 2022 or 2023.
 - *Tranche 2* – Closing 20-day Volume Weighted Average Price (VWAP) of A\$0.90 commencing 1 January 2023 until 31 December 2024, or closing 45-day VWAP of A\$0.90 until 31 December 2022.
 - *Tranche 3* – Closing 20-day VWAP of A\$1.80 commencing 1 January 2023 until 31 December 2024, or closing 45-day VWAP of A\$1.80 until 31 December 2023.
 - *Tranche 4* – Service condition only – 25% on 26 May 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter.

The Black Scholes option pricing model was used to determine the fair value of Tranches 1 and 4. The fair value of Tranches 2 and 3 was determined using a Monte Carlo simulation model.

The likelihood of achieving the Tranche 1 Performance Milestone and the Tranche 4 service condition has been assessed at 100%. The likelihood of achieving the Tranche 2 and 3 Performance Milestones is built into the Monte Carlo Simulation model.

The fair values of the options are as follows:

- *Tranche 1* – US\$0.17 per option / US\$152,297 total.
- *Tranche 2* – US\$0.09 per option / US\$80,628 total.
- *Tranche 3* – US\$0.05 per option / US\$44,793 total.
- *Tranche 4* – US\$0.17 per option / US\$152,297 total.

The total fair value of the 3,583,452 options is US\$430,015. After the application of vesting periods the expense recognised at 31 December 2022 in relation to the 3,583,452 options is US\$135,029.

- The issue of 3,222,000 Employee Share Plan Options exercisable at A\$0.37, on or before 30 August 2027 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 30 August 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US\$110,128 recorded at 31 December 2022. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued

Fair Value

Option fair values were determined using the following option pricing models and inputs:

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Note 23. Share-based payments (continued)

Options	ESOP Options	ESOP Options	ESOP Options Tranche 1	ESOP Options Tranche 2	ESOP Options Tranche 3	ESOP Options Tranche 4	ESOP Options
Option pricing model	Black Scholes	Black Scholes	Black Scholes	Monte Carlo	Monte Carlo	Black Scholes	Black Scholes
Number of options	200,000	300,000	895,863	895,863	895,863	895,863	3,222,000
Grant date	26 April 2022	26 April 2022	26 May 2022	26 May 2022	26 May 2022	26 May 2022	30 Aug 2022
Issue date	26 April 2022	26 April 2022	26 May 2022	26 May 2022	26 May 2022	26 May 2022	21 Sept 2022
Exercise price	A\$0.43	A\$0.49	A\$0.48	A\$0.48	A\$0.48	A\$0.48	A\$0.37
Expected volatility	70%	70%	70%	70%	70%	70%	70%
Implied option life	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Expected dividend yield	nil	nil	nil	nil	nil	nil	nil
Risk free rate	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	3.34%
Valuation per option A\$	\$0.20	\$0.19	\$0.24	\$0.13	\$0.07	\$0.24	\$0.26
Exchange rate	\$0.69	\$0.69	\$0.69	\$0.69	\$0.69	\$0.69	\$0.68
Valuation per option US\$	\$0.14	\$0.13	\$0.17	\$0.09	\$0.05	\$0.17	\$0.18
Total valuation US\$	\$28,000	\$39,000	\$152,297	\$80,628	\$44,793	\$152,297	\$579,960

Share Based Payment Expense

Share based payment expense is comprised as follows:

	2022 US\$	2021 US\$
Total net expense recognised in profit or loss	496,196	280,569

Accounting policy for share-based payments

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes or Monte Carlo pricing models. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Note 24. Operating segments

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The Group's sole operating segment is consistent with the presentation of these consolidated financial statements.

For the year ended 31 December 2022 the Group's revenues have been derived from the following geographical locations:

- Israel – 35%
- United States of America – 43%
- Other foreign countries – 23%

For year ended 31 December 2022 the Group has two major customers contributing 21% and 15% of total revenues. Both are US customers from the UAV sector.

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Note 25. Financial instruments

Financial risk management policies

The Group's financial instruments consist mainly of deposits with banks, trade and other debtors and trade and other payables.

Specific Financial Risk Exposures and Management

The main risk the Group is exposed to through its financial instruments are market risk (including fair value and interest rate risk) and cash flow interest rate risk, credit risk and liquidity risk.

(a) Interest rate risk

From time to time the Group has significant interest bearing assets, but they are as a result of the timing of equity raising and capital expenditure rather than a reliance on interest income. The interest rate risk arises on the rise and fall of interest rates. The Group's income and operating cash flows are not expected to be materially exposed to changes in market interest rates in the future. The exposure to interest rates arises from the cash and cash equivalents balances.

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is not considered to be material.

(b) Credit risk

The maximum exposure to credit risk is limited to the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the consolidated financial statements.

Credit risk related to balances with banks and other financial institutions and trade and other receivables, and is managed by the Group in accordance with approved Board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings.

	Note	2022 US\$	2021 US\$
Cash and cash equivalents held in Australian banks - A+ Rated	note 11	4,895,093	425,645
Cash and cash equivalents held in Israel banks - A Rated	note 11	299,701	1,564,412
Trade and other receivables - no rating	note 13	584,200	353,106

Impaired trade receivables

The Group assesses expected credit losses associated on a forward looking basis. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure or a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

During the year, the following gains/(losses) were recognised in profit or loss in relation to impaired receivables:

	2022 US\$	2021 US\$
Impairment gains/(losses):		
- individually recovered/(impaired) receivables	7,613	(725,190)
- movement in provision for impairment	7,538	(19,420)
	<u>15,151</u>	<u>(744,610)</u>

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Note 25. Financial instruments (continued)

As at 31 December 2022, trade receivables of US\$19,139 (31 December 2021: US\$14,600) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2022 US\$	2021 US\$
0 to 3 months overdue	-	6,424
3 to 6 months overdue	722	1,333
Over 6 months overdue	18,417	6,843
	<u>19,139</u>	<u>14,600</u>

(c) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities based on the actual rates at the reporting date excluding interest payments:

2022		Less than 6	6 - 12	1 - 2	2 - 5	Over 5	Total contractual	Carrying
	Interest rate %	months US\$	months US\$	years US\$	years US\$	years US\$	cash flow US\$	amount US\$
<i>Financial liabilities at amortised cost</i>								
Trade and other payable	-	854,552	-	-	-	-	854,552	854,552
Lease liabilities	3.20%	61,692	27,127	21,782	8,383	-	118,984	115,884
Borrowings	8.00%	-	-	5,976,028	-	-	5,976,028	4,138,048
		<u>916,244</u>	<u>27,127</u>	<u>5,997,810</u>	<u>8,383</u>	<u>-</u>	<u>6,949,564</u>	<u>5,108,484</u>

2021		Less than 6	6 - 12	1 - 2	2 - 5	Over 5	Total contractual	Carrying
	Interest rate %	months US\$	months US\$	years US\$	years US\$	years US\$	cash flow US\$	amount US\$
<i>Financial liabilities at amortised cost</i>								
Trade and other payable	-	577,005	-	-	-	-	577,005	577,005
Lease liabilities	3.20%	115,387	118,195	138,522	-	-	372,104	340,585
		<u>692,392</u>	<u>118,195</u>	<u>138,522</u>	<u>-</u>	<u>-</u>	<u>949,109</u>	<u>917,590</u>

Elsight Limited
Notes to the consolidated financial statements
31 December 2022

Note 25. Financial instruments (continued)

(d) Net fair value of financial assets and liabilities

Fair value estimation

Due to the short term nature of the receivables and payables the carrying value approximates fair value.

(e) Currency risk

The currency risk is the risk that the value of financial instruments will fluctuate due to change in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the New Israeli Shekel. Any reasonable fluctuation in exchange rates is not expected to have a material impact on either profit or equity.

	United States Dollar	
	2022	2021
	US\$	US\$
Cash and cash equivalents	31,955	1,418,449
Trade and other receivables	120,798	182,263
Trade and other payables	(8,876)	(13,623)
Net exposure	<u>143,877</u>	<u>1,587,089</u>

Accounting policy for financial instruments

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on how the Group manages the financial assets and the contractual terms of the cash flows. At year end, all of the Group's financial assets have been classified as those to be measured at amortised cost.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment

The Group assesses expected credit losses associated on a forward-looking basis. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Note 26. Parent entity information

The following information of the legal parent Elsieht Limited has been prepared in accordance with Australian Accounting Standards and Group accounting policies.

Elsight Limited
Notes to the consolidated financial statements
31 December 2022

Note 26. Parent entity information (continued)

Statement of financial position

	Parent	
	2022	2021
	US\$	US\$
Total current assets	5,203,378	494,166
Total non-current assets	1,106,777	2,384,641
Total assets	6,310,155	2,878,807
Total current liabilities	322,611	46,543
Total non-current liabilities	4,138,048	-
Total liabilities	4,460,659	46,543
Net assets	1,849,496	2,832,264
Equity		
Issued capital	23,742,945	21,369,041
Foreign Exchange Reserve	(2,386,760)	(1,082,750)
Share Based Payment Reserve	1,852,331	3,384,301
Convertible note reserve	718,411	-
Accumulated losses	(22,077,431)	(20,838,327)
Total equity	1,849,496	2,832,265

Statement of profit or loss and other comprehensive income

	Parent	
	2022	2021
	US\$	US\$
Loss after income tax	(3,267,271)	(5,540,834)
Other comprehensive loss for the year, net of tax	(1,304,011)	(332,631)
Total comprehensive loss	(4,571,282)	(5,873,465)

Guarantees entered into by Elsight Limited for the debts of its subsidiary

There are no guarantees entered into by Elsight Limited.

Contingent liabilities of Elsight Limited

There were no contingent liabilities as at 31 December 2022 (2021: Nil).

Commitments by Elsight Limited

There were no commitments as at 31 December 2022 (2021: Nil).

Elsight Limited
Notes to the consolidated financial statements
31 December 2022

Note 27. Controlled entities

The ultimate legal parent entity of the Group is Elsight Limited, incorporated and domiciled in Australia. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the Group's accounting policies.

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
El-Sight Ltd	Israel	100%	100%

The proportion of ownership interest is equal to the proportion of voting power held.

Note 28. Commitments

The Group has no commitments which are not recorded on the statement of financial position as at 31 December 2022.

Note 29. Events after the reporting period

On 18 January 2023 the Company issued a further 93,000 ESOP options with an exercise price of A\$0.37.

No other matter or circumstance has arisen since 31 December 2022 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.

Elsight Limited
Directors' declaration
31 December 2022

In the Director's opinion:

1. The consolidated financial statements and notes set out on pages 23 to 53 are in accordance with the *Corporations Act 2001*, including:

- a) complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements, noting the matters documented in Note 1;
- b) giving a true and fair view, the consolidated entity's financial position as at 31 December 2022 and of its performance for the year ended on that date; and

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. This declaration has been made after receiving the declaration required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2022.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

David Furstenberg

Mr David Furstenberg
Executive Director

31 March 2023

INDEPENDENT AUDITOR'S REPORT

To the members of Elsie Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Elsie Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Share-based payments

Key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2022, the Group issued options to employees and financial consultants which have been accounted for as share-based payments. Refer to notes 3 and 23 of the financial report for a description of the accounting policy and significant estimates and judgements applied to these arrangements. Share-based payments are a complex accounting area and due to the complex and judgemental estimates used in determining the fair value of the share-based payments, we consider the Group's accounting for share-based payments to be a key audit matter.	Our procedures included, but were not limited to the following: • Reviewing the relevant terms and conditions to obtain an understanding of the contractual nature of the share-based payment arrangements • Reviewing and evaluating management's assessment of the likelihood of achieving the non-market and market performance conditions attached to the share-based payments • Reviewing management's determination of the fair value of the share-based payments granted, considering the appropriateness of the valuation model used and assessing the valuation inputs using BDO's internal valuation specialists where appropriate • Assessing the allocation of the share-based payment expense over the relevant vesting period • Assessing the adequacy of the Group's disclosures in Notes 3 and 23 of the financial report.

Revenue Recognition

Key audit matter	How the matter was addressed in our audit
The Group recognises revenue in accordance with AASB 15 <i>Revenue from Contracts with Customers</i> (AASB 15). There are complexities and judgements associated with interpreting key revenue contracts entered into by the Group against the requirements of the accounting standard. This area is a key audit matter due to: - the significance of revenue to the financial report; and - revenue being one of the key drivers to the Group's performance.	Our audit procedures included but were not limited to the following: - Verifying the revenue recognition policy applied by the Group is in accordance with AASB 15; - Reviewing contracts to verify the terms and conditions within the agreements and review management's assessment against principles of AASB 15; - Performed detailed analytical procedures over the Group's revenue and comparing actual results to BDO's expectations and prior year performance; - Enquired with management as to the appropriateness of procedures in place to ensure proper cut-off for revenue has been achieved; - Substantively tested invoices and contracts ensuring that revenue has been appropriately recorded; and - Reviewing accounting policies and disclosures including significant estimates and judgements within the financial report in Note 4 within the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2022, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 21 of the directors' report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Elsie Limited, for the year ended 31 December 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Ashleigh Woodley', is written over a faint, stylized 'BDO' logo.

Ashleigh Woodley

Director

Perth

31 March 2023

This Corporate Governance Statement is current to the date of signing the Directors' report and has been approved by the Board of the Company. This statement relates to the reporting period ending 31 December 2022.

This Corporate Governance Statement discloses the extent to which the Company follows the recommendations set by the ASX Corporate Governance Council in its publication *Corporate Governance Principles and Recommendations 4th Edition* (Recommendations). The Recommendations are not mandatory, however where Recommendations have not been followed, reasons for not following them have been provided, along with what (if any) alternative governance practices have been adopted in lieu of the Recommendation.

The Company has adopted Corporate Governance Policies which provide written terms of reference for the Company's corporate governance practices. The Board of the Company has not yet formed an audit committee, nomination committee, risk management committee or remuneration committee.

The Company's Corporate Governance Policies are contained within the Corporate Governance Plan and available on the Company's website.

Principle 1: Lay solid foundations for management and oversight

Roles of the Board & Management

The role of the Board is to provide overall strategic guidance and effective oversight of management. The Board derives its authority to act from the Company's Constitution.

The Board is responsible for and has the authority to determine all matters relating to the strategic direction, policies, practices, establishing goals for management and the operation of the Company. The Board delegates responsibility for the day-to-day operations and administration of the Company to the Chief Executive Officer.

The role of management is to support the Chief Executive Officer and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

In addition to matters it is expressly required by law to approve, the Board has reserved the following matters to itself:

- overseeing the Company, including its control and accountability systems;
- appointment, evaluation, rewarding and if necessary the removal of the Managing Director (or equivalent), the Company Secretary and senior management personnel;
- ratifying the appointment, and where appropriate, the removal, of senior executives;
- in conjunction with members of the senior management team, develop corporate objectives, strategies and operations plans and approve and appropriately monitor plans, new investments, major capital and operating expenditures, use of capital, acquisitions, divestitures and major funding activities;
- establishing appropriate levels of delegation to the executive Directors to allow them to manage the business efficiently;
- monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level, to understand at all times the financial and operating conditions of the Company, including the reviewing and approving of annual budgets;
- monitoring the performance of senior management, including the implementation of strategy, and ensuring appropriate resources are available to them;
- identifying areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- overseeing the management of safety, occupational health and environmental matters;
- satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, and internal control processes are in place and functioning appropriately;
- ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- reporting accurately to shareholders, on a timely basis; and
- ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted, and that its practice is consistent with, a number of guidelines including:
 - Code of Conduct;
 - Continuous Disclosure Policy;
 - Diversity Policy;
 - Performance Evaluation Practices;

- Procedures for Selection and Appointment of Directors;
- Remuneration Policy;
- Risk Management Review Procedure and Internal Compliance and Control;
- Securities Trading Policy;
- Shareholders Communication Strategy; and
- Whistleblower Policy.

Subject to the specific authorities reserved to the Board under the Board Charter, the Board delegates to the Chief Executive Officer responsibility for the management and operation of Elsieht. The Chief Executive Officer is responsible for the day-to-day operations, financial performance and administration of Elsieht within the powers authorised and delegated to him from time-to-time by the Board. Chief Executive Officer may make further delegation within the delegations specified by the Board and will be accountable to the Board for the exercise of those delegated powers.

Further details of Board responsibilities, objectives and structure are set out in the Board Charter which is contained within the Corporate Governance section on the Elsieht website.

Board Committees

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate committees at this time including audit and risk, remuneration or nomination committees, preferring at this stage of the Company's development, to manage the Company through the full Board of Directors. The Board assumes the responsibilities normally delegated to the audit and risk, remuneration and nomination Committees.

If the Company's activities increase, in size, scope and nature, the appointment of separate committees will be reviewed by the Board and implemented if considered appropriate.

Board Appointments

The Company undertakes comprehensive reference checks prior to appointing a director or putting that person forward as a candidate to ensure that person is competent, experienced, and would not be impaired in any way from undertaking the duties of director. The Company provides relevant information to shareholders for their consideration about the attributes of candidates together with whether the Board supports the appointment or re-election.

The terms of the appointment of a non-executive director, executive directors and senior executives are agreed upon and set out in writing at the time of appointment.

The Company Secretary

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board, including agendas, Board papers and minutes, advising the Board and its Committees (as applicable) on governance matters, monitoring that the Board and, when applicable, Committee policies and procedures are followed, communication with regulatory bodies and the ASX as well as statutory and other filings.

Diversity

The Board has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender, age, ethnicity and cultural diversity. The Diversity Policy allows the Board to set measurable gender diversity objectives (if considered appropriate) and to assess annually both the objectives (if any have been set) and the Company's progress towards achieving them.

The Board considers that, due to the size, nature and stage of development of the Company, setting measurable objectives for the Diversity Policy at this time is not appropriate. The Board will consider setting measurable objectives as the Company increases in size and complexity.

The participation of women in the Company at the date of this report is as follows:

- | | |
|--|-----|
| • Women employees in the Company | 19% |
| • Women in senior management positions | 11% |
| • Women on the Board | 0% |

The Company's Diversity Policy is available on its website.

Board & Management Performance Review

On a periodic basis, the Board conducts a review of its structure, composition and performance.

The periodic review includes consideration of the following measures:

- comparison of the performance of the Board against the requirements of the Board charter;
- assessment of the performance of the Board over the previous twelve months having regard to the corporate strategies, operating plans and the annual budget;
- review the Board's interaction with management;
- identification of any particular goals and objectives of the Board for the next year;
- review the type and timing of information provided to the directors; and
- identification of any necessary or desirable improvements to Board or committee charters.

The method and scope of the performance evaluation will be set by the Board and may include a Board self-assessment checklist to be completed by each Director. The Board may also use an independent adviser to assist in the review.

The Chairman has primary responsibility for conducting performance appraisals of Non-Executive Directors, in conjunction with them, having particular regard to:

- contribution to Board discussion and function;
- degree of independence including relevance of any conflicts of interest;
- availability for and attendance at Board meetings and other relevant events;
- contribution to Company strategy;
- membership of and contribution to any Board committees; and
- suitability to Board structure and composition.

A full board performance evaluation was not undertaken during the reporting period, however, the Board did undertake a Board Skills Matrix and intends to undertake a full board performance review in 2023.

The Board conducts an annual performance assessment of the Chief Executive Officer against agreed key performance indicators.

The Chief Executive Officer conducts an annual performance assessment of senior executives against agreed key performance indicators.

Independent Advice

Directors have a right of access to all Company information and executives. Directors are entitled, in fulfilling their duties and responsibilities, to seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Principle 2: Structure the board to be effective and add value

Board Composition

During the financial year and as at the date of this report the Board was comprised of the following members:

Directors	Position	Appointed	Independent
Ret Gen Ami Shafran	Non-Executive Chairman	2 June 2017	Yes
Mr David Furstenberg	Executive Director	2 June 2017	No
Mr Howard Digby	Non-Executive Director	13 December 2016	Yes
Mr Joshua (Jim) Landau	Non-Executive Director	1 October 2021	Yes

Elsight has adopted a definition of 'independence' for Directors that is consistent with the Recommendations.

Board Selection Process

The Board considers that a diverse range of skills, backgrounds, knowledge and experience is required in order to effectively govern Elsight. The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review.

The Board is responsible for the nomination and selection of directors. The Board reviews the size and composition of the

Board regularly and at least once a year as part of the Board evaluation process.

The Board also conducts an annual review of the Company's Board Skills Matrix to ensure the Board maintains an appropriate balance of skills, experience, independence and knowledge to discharge its duties and responsibilities effectively. The Board Skills Matrix includes the following areas of knowledge and expertise:

- strategic expertise;
- corporate governance skills
- specific industry knowledge;
- accounting and finance;
- risk management;
- experience with financial markets, mergers & acquisitions; and
- investor and public relations.

Induction of New Directors and Ongoing Development

New Directors are issued with a formal Letter of Appointment that sets out the key terms and conditions of their appointment, including Director's duties, rights and responsibilities, the time commitment envisaged, and the Board's expectations regarding involvement with any Committee work.

An induction program is in place and new Directors are encouraged to engage in professional development activities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

Principle 3: Instill a culture of acting lawfully, ethically and responsibly

The Company has implemented a Code of Conduct, which provides a framework for decisions and actions in relation to ethical conduct in employment. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders.

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- maintain high levels of professional conduct;
- respect confidentiality and not misuse Company information, assets or facilities;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Conduct may face disciplinary action including, in the cases of serious breaches, dismissal. If an employee suspects that a breach of the Code of Conduct has occurred or will occur, they must report that breach to the Company Secretary, or in their absence, the Chairman. No employee will be disadvantaged or prejudiced if they report in good faith a suspected breach under the terms of the Company's Whistleblower Policy. All reports will be acted upon and kept confidential. The Company also has an anti-bribery and corruption policy.

Principle 4: Safeguard the integrity of corporate reports

The Board as a whole fulfills to the functions normally delegated to the Audit Committee as detailed in the Audit Committee Charter.

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company throughout the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

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The Board receives regular reports from management and from external auditors. It also meets with the external auditors as and when required.

The external auditors attend Elsieht's AGM and are available to answer questions from security holders relevant to the audit.

Prior approval of the Board must be gained for non-audit work to be performed by the external auditor. There are qualitative limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the lead engagement partner responsible for the audit not perform in that role for more than five years.

The unaudited periodic corporate reports released to the market go through a detailed review process by the Director of Finance, followed by the Chief Executive Officer and Chief Financial Officer. The final reports are then reviewed and approved by the Board for release.

CEO and CFO Certifications

The Board, before it approves the entity's financial statements for a financial period, receives from its CEO and CFO (or, if none, the persons fulfilling those functions) a declaration provided in accordance with Section 295A of the Corporations Act that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Principle 5: Make timely and balanced disclosure

The Company has a Continuous Disclosure Policy which outlines the disclosure obligations of the Company as required under the ASX Listing Rules and Corporations Act. The policy is designed to ensure that procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which Company securities are traded.

The Board considers whether there are any matters requiring disclosure in respect of each and every item of business that it considers in its meetings. Individual Directors are required to make such a consideration when they become aware of any information in the course of their duties as a Director of the Company.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company.

The Board has designated the Company Secretary as the person responsible for communicating with the ASX. All key announcements at the discretion of the Chief Executive Officer are to be circulated to and reviewed by all members of the Board.

The Chairman, the Board, Chief Executive Officer and the Company Secretary are responsible for ensuring that:

- a) company announcements are made in a timely manner, that announcements are factual and do not omit any material information required to be disclosed under the ASX Listing Rules and Corporations Act; and
- b) company announcements are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Principle 6: Respect the rights of security holders

The Company recognises the value of providing current and relevant information to its shareholders. The Board of the Company aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, the company website, information posted or emailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to clear and understandable information about the Company; and
- making it easy for shareholders to participate in general meetings of the Company.

Elsight Limited
Corporate governance statement
31 December 2022

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company. These contact details are available on the "Corporate Directory" page of the Company's website.

Shareholders may elect to, and are encouraged to, receive communications from Elsieht, and Elsieht's securities registry, electronically. The contact details for the registry are available on the "Corporate Directory" page of the Company's website.

The Company notes that all resolutions at a meeting of security holders are decided by a way of poll rather than by a show of hands.

The Company maintains information in relation to its Constitution, governance documents, Directors and senior executives, Board and committee charters, annual reports and ASX announcements on the Company's website.

Principle 7: Recognise and manage risk

The Board is committed to the identification, assessment and management of risk throughout Elsieht's business activities.

The Board is responsible for the oversight of the Company's risk management and internal compliance and control framework. The Company does not have an internal audit function. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Chief Executive Officer having ultimate responsibility to the Board for the risk management and internal compliance and control framework. Elsieht has established policies for the oversight and management of material business risks.

Elsieht's Risk Management and Internal Compliance and Control Policy recognises that risk management is an essential element of good corporate governance and fundamental in achieving its strategic and operational objectives. Risk management improves decision making, defines opportunities and mitigates material events that may impact security holder value.

Elsieht believes that explicit and effective risk management is a source of insight and competitive advantage. To this end, Elsieht is committed to the ongoing development of a strategic and consistent enterprise wide risk management program, underpinned by a risk conscious culture.

Elsieht accepts that risk is a part of doing business. Therefore, the Company's Risk Management and Internal Compliance and Control Policy is not designed to promote risk avoidance. Rather, Elsieht's approach is to create a risk conscious culture that encourages the systematic identification, management and control of risks whilst ensuring we do not enter into unnecessary risks or enter into risks unknowingly.

Elsieht assesses its risks on a residual basis; that is it evaluates the level of risk remaining taking into account all the mitigation practices and controls which are in place. Depending on the materiality of the risks, Elsieht applies varying levels and types of management plans.

The Board has required management to design and implement a risk management and internal compliance and control system to manage Elsieht's material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure. The Company faces risks inherent to its business, including economic risks, which may materially impact the Company's ability to create or preserve value for security holders over the short, medium or long term. The Company has in place policies and procedures, including a risk management framework (as described in the Company's Risk Management and Internal Compliance and Control Policy), which is developed and updated to help manage these risks. The Board does not consider that the Company currently has any material exposure to environmental or social sustainability risks.

The Company's process of risk management and internal compliance and control includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect those risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

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The Board reviews the Company's risk management framework periodically to ensure that it continues to effectively manage risk. A review did not take place during the reporting period; however the Board intends to undertake a risk management framework review during 2023.

Management reports to the Board as to the effectiveness of Elsight's management of its material business risks at each Board meeting.

The Board considers the Company is not yet of a sufficient size for a formal internal audit function. The Company relies on the external auditor and management to identify areas of non-compliance with internal controls as the Company's business operations continue to develop, the Board will review the need for establishing an independent internal audit function.

The Company's operations are not subject to any significant environmental regulations under the Commonwealth or State legislation. Whilst the Company has exposure to elements of risks relevant to the industry in which the Company operates, the Company does not consider, given the nature of its business, that it has any specific extraordinary exposure to environmental and social sustainability risks.

Principle 8: Remunerate fairly and responsibly

The Board as a whole fulfills the functions normally delegated to the Remuneration Committee as detailed in the Remuneration Committee Charter.

Elsight has implemented a Remuneration Policy which was designed to recognise the competitive environment within which Elsight operates and also emphasise the requirement to attract and retain high caliber talent in order to achieve sustained improvement in Elsight's performance. The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Elsight.

The key principles are to:

- review and approve the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensure that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- fairly and responsibly reward executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectations in the market;
- remunerate fairly and competitively in order to attract and retain top talent;
- recognise capabilities and promote opportunities for career and professional development; and
- review and approve equity based plans and other incentive schemes to foster a partnership between employees and other security holders.

The Board determines the Company's remuneration policies and practices and assesses the necessary and desirable competencies of Board members. The Board is responsible for evaluating Board performance, reviewing Board and management succession plans and determines remuneration packages for the Chief Executive Officer, Non-Executive Directors and senior management based on an annual review.

Elsight's executive remuneration policies and structures and details of remuneration paid to directors and key management personnel (where applicable) are set out in the Remuneration Report.

Non-Executive Directors receive fees (including statutory superannuation where applicable) for their services, the reimbursement of reasonable expenses and, in certain circumstances options.

Executive directors and other senior executives (where appointed) are remunerated using combinations of fixed and performance-based remuneration. Fees and salaries are set at levels reflecting market rates and performance-based remuneration is linked directly to specific performance targets that are aligned to both short and long term objectives.

The Company prohibits Directors and employees from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in the Company's securities to any other person.

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Further details in relation to the company's remuneration policies are contained in the Remuneration Report, within the Directors' report.

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ADDITIONAL ASX INFORMATION

The shareholder information set out below was applicable as at 23 March 2023.

As at 23 March 2022 there were 150,319,581 ordinary fully paid shares held by 894 individual shareholders.

VOTING RIGHTS

The voting rights of the ordinary shares are as follows:

- (a) at meetings of members each member entitled to vote may vote in person or by proxy or attorney;
- (b) on a show of hands each person present who is a member has one vote; and
- (c) on a poll each person present in person or by proxy or by attorney has one vote for each ordinary share held.

There are no voting rights attached to any of the options that the Company currently has on issue. Upon exercise of these options, the shares issued will have the same voting rights as existing ordinary shares.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of listed securities are listed below: Ordinary Full Paid Shares

Holder Name	Holding	% of Issued Share Capital
CITICORP NOMINEES PTY LIMITED	29,891,568	19.89%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	20,004,429	13.31%
BUTTONWOOD NOMINEES PTY LTD	13,149,156	8.75%
JB TORO PTY LTD	11,546,226	7.68%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	10,213,590	6.79%
RIGI INVESTMENTS PTY LIMITED <THE CAPE A/C>	6,575,048	4.37%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,887,838	2.59%
BNP PARIBAS NOMS PTY LTD <DRP>	3,651,610	2.43%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	3,000,000	2.00%
THE LF POINT PTY LTD <POINT A/C>	2,650,000	1.76%
MR JASON FRANCO BATTISTESSA	2,185,000	1.45%
TENBAGGA RESOURCES PTY LTD <TENBAGGA FAMILY A/C>	2,095,000	1.39%
MR JASON FRANCO BATTISTESSA <AXEL BATTISTESSA-LEE A/C>	1,998,000	1.33%
MR JASON FRANCO BATTISTESSA <MAGNUS BATTISTESSA-LEE A/C>	1,986,000	1.32%
LAMMA NOMINEES PTY LTD	1,750,000	1.16%
SPINITE PTY LTD	1,698,571	1.13%
MR NIR GABAY	1,318,500	0.88%
GLENEAGLE ASSET MANAGEMENT LIMITED <GLENEAGLE INVESTMENTFUND A/C>	1,180,000	0.79%
ALBION HAWTHORN PTY LTD <TIM PEARS FAMILY A/C>	1,100,500	0.73%
TRUFFLES TRADING PTY LTD <BATTISTESSA SUPERFUND A/C>	1,021,200	0.68%
Totals: Top 20 holders of Issued Capital	120,902,236	80.43%

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Total Remaining Holders Balance	29,417,345	19.57%
Totals	150,319,581	100.00%

SUBSTANTIAL HOLDERS

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 23 March 2023 are:

Name	No of Shares Held	% of Issued Share Capital
CITICORP NOMINEES PTY LIMITED	28,458,710	21.31%
NIR GABAY	21,233,510	14.13%
CGS – CIMB SECURITIES (SINGAPORE) PTE. LTD.	11,580,741	8.69%
J B TORO PTY LTD	6,033,115	5.63%

DISTRIBUTION OF EQUITY SECURITIES

The distribution of issued quoted equity securities as at 23 March 2023 were as follows:

Holding Ranges	No. Ordinary fully paid share holders	Ordinary fully paid shares	No. quoted Options holders	No. Quoted options
1 - 1,000	124	55,940	121	55,233
1,001 - 5,000	249	657,206	102	264,555
5,001 - 10,000	134	1,078,651	32	225,334
10,001 - 100,000	306	10,677,596	60	1,944,692
100,001 - and over	81	137,850,188	22	20,732,839
Totals	894	150,319,581	337	23,222,653

There were 188 holders with unmarketable parcels totaling 137,812 shares based on the share price as at close of business on 23 March 2022.

RESTRICTED SECURITIES

As at 23 March 2022 no shares are held under escrow.

TWENTY LARGEST QUOTED OPTION HOLDERS

Security class:	ELSOA - OPTIONS EXPIRING 31 MARCH 2023 @ \$0.90		
Position	Holder Name	Holding	% of Issued Capital
1	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	7,898,609	34.01%
2	BNP PARIBAS NOMS PTY LTD <DRP>	2,823,380	12.16%
3	TENBAGGA RESOURCES PTY LTD <TENBAGGA FAMILY A/C>	2,070,283	8.91%
4	MR JOHANNES HENDRIKUS TULLENERS	1,588,750	6.84%
5	CITICORP NOMINEES PTY LIMITED	1,502,059	6.47%

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6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,404,363	6.05%
7	SCINTILLA STRATEGIC INVESTMENTS LIMITED	400,000	1.72%
8	MORSEC NOMINEES PTY LTD <ACCUMULATION ACCOUNT>	317,649	1.37%
8	MR MARK DOUGLAS KEMPE	300,000	1.29%
9	ROOKHARP CAPITAL PTY LIMITED	298,889	1.29%
10	COMSEC NOMINEES PTY LIMITED	293,601	1.26%
11	TDF PROPERTIES PTY LTD <THE TDF PROPERTY A/C>	250,000	1.08%
12	CHALLENGE AURORA PTY LTD	245,000	1.06%
13	MC3 BUILDING SERVICES PTY LTD	240,000	1.03%
13	SILVERWOOD CORPORATION PTY LTD <SUPER FUND ACCOUNT>	200,000	0.86%
14	MR JEFFREY JOHN HUNT	157,752	0.68%
15	THE MAMF GROUP PTY LTD	142,102	0.61%
16	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	141,954	0.61%
17	MRS YAN WANG <AUST WEST COAST TRAVEL A/C>	128,333	0.55%
18	LAMMA NOMINEES PTY LTD	125,000	0.54%
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,404,363	6.05%
19	SCINTILLA STRATEGIC INVESTMENTS LIMITED	400,000	1.72%
20	MORSEC NOMINEES PTY LTD <ACCUMULATION ACCOUNT>	317,649	1.37%
20	MR MARK DOUGLAS KEMPE	300,000	1.29%
20	ROOKHARP CAPITAL PTY LIMITED	298,889	1.29%
	Total	20,527,724	88.49%
	Total issued capital - selected security class	23,222,653	100.00%

UNQUOTED SECURITIES

As at 23 March 2023, the following unquoted securities are on issue:

Security Code	Security Name	Total Holders	Total Holdings
ELSCN	CONVERTIBLE NOTES	2	25,149,500
ELSEO2	EMP OPTS EXP 4/03/2023 @ AU\$0.745	1	12,000
ELSEO3	EMP OPTS EXP 27/07/25 @ AU\$0.30	1	75,000
ELSEO7	EMP OPTS EXP 25/04/27 @ AU\$0.43	1	200,000
ELSEO8	EMP OPTS EXP 25/04/27 @ AU\$0.49	1	300,000
ELSEO9	EMP OPTS EXP 25/05/27 @ AU\$0.48	1	3,583,452
ELSOPT06	OPTIONS EXPIRING 31 JULY 2023 @ \$0.675	3	55,000
ELSOPT07	OPTIONS EXPIRING 31 JULY 2023 @ \$0.60	2	200,000
ELSOPT09	OPTIONS EXPIRING 1 DECEMBER 2023 @ \$0.60	1	50,000
ELSOPT10	OPTIONS EXPIRING 23 JUNE 24 @ \$0.35	1	100,000
ELSOPT12	OPTIONS EXPIRING 23 APRIL 2025 @ \$0.28	12	1,050,000
ELSOPT13	OPTIONS EXPIRING 15 MAY 2025 @ \$0.34	3	150,000
ELSOPT15	UNL OPTS EXP 1 FEBRUARY 2026 @ \$0.43	3	160,000
ELSOPT17	UNLISTED OPTIONS EXP 14/12/2026 @ \$0.38	2	250,000
ELSOPT18	UNLISTED OPTIONS EXP 14/12/2026 @ \$0.44	1	200,000
ELSOPT19	UNLISTED OPTIONS EXP 14/09/2026 @ \$0.42	8	611,000
ELSOPT20	UNLISTED OPTIONS EXP 14/09/2026 @ \$0.48	3	1,100,000

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ELSOPT21	UNLISTED OPTIONS EXP 30/08/2027 @ \$0.37	18	3,222,000
	TOTAL	1,295	210,010,186

ON-MARKET BUY BACK

There is currently no on-market buyback program.

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