

1. Details of reporting period

| | |
|-------------------|---------------------------------|
| Name of entity: | Elsight Limited ("the Company") |
| ABN: | 98 616 435 753 |
| Reporting period: | 31 December 2023 |
| Previous period: | 31 December 2022 |

2. Results for announcement to the market

| | 31 December 2023 US\$ | 31 December 2022 US\$ | Increase/ (Decrease) US\$ | Amount Change % |
|---|-----------------------------|-----------------------------|---------------------------------|-----------------------|
| Revenues from ordinary activities | 1,541,168 | 823,242 | 717,926 | 87% |
| Loss after tax from ordinary activities attributable to members | (3,683,532) | (4,306,433) | (622,901) | (14%) |
| Loss after tax attributable to members | (3,683,532) | (4,306,433) | (622,901) | (14%) |

3. Dividends

Current period

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

Previous period

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

4. Dividend reinvestment plans

Not applicable.

5. Net tangible assets/(liabilities)

| | Reporting period Cents | Previous period Cents |
|---|------------------------------|-----------------------------|
| Net tangible (liabilities)/assets per ordinary security | (1.29) | 1.22 |

6. Control gained over entities

Not applicable.

7. Loss of control over entities

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

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9. Foreign entities

Not applicable.

10. Audit qualification or review

This report is based on accounts which are in the process of being audited.

11. Attachments

Details of attachments (if any):

The Preliminary Final Report of Elsight Limited for the year ended 31 December 2023 is attached.

12. Signed

Signed  _____

Date: 23 February 2024

David Furstenberg
Executive Director

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Elsight Limited

ABN 98 616 435 753

Preliminary Final Report - 31 December 2023

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General information

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entities (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 23 February 2024 by the directors of the Company.

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 \$3,683,532 (31 December 2022: loss of \$4,306,433). The decrease in loss of \$622,901 from 31 December 2022 to 31 December 2023 is due to an increase in the Group's gross profit and a decrease in selling, general and administrative expenses.

The net assets of the Group have decreased by \$3,510,4710, from net assets of \$1,849,496 at 31 December 2022 to net liabilities of \$1,660,975 at 31 December 2023.

As at 31 December 2023, the Group's cash and cash equivalents decreased from a balance of \$5,194,794 at 31 December 2022 to a balance of \$2,702,593 at 31 December 2023. As at 31 December 2023 the Group has a working capital of \$3,148,709 (31 December 2022: working capital of \$5,789,295). Excluded from the 31 December 2023 working capital are convertible notes with a balance of US\$4,983,627 which the Group expects to be converted or refinanced before their 30 December 2024 maturity date.

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REVIEW OF ACTIVITIES

Performance Highlights

- Elsight acquired more than 50 strategic Design-Win partners over the 12 months of 2023 in various market verticals, for a grand total of 115 Design-Win partners.
- Baseline Plan (or Planning Versus Execution) - **During 2023 the company exceeded its original Baseline Revenue Plan**
- In H1, Elsight won a strategic, multi-year public tender to supply the **Israel Police** and other government departments with solutions for Communication On-The-Move (COTM).
- **Highlighted partners using Elsight's Halo:**
 - **DroneUp**, a U.S.-based drone delivery company serving the retail giant Walmart, expanded its operations
 - Australian-based **Sphere Drones** announced its new HubX leveraging drones for the mining industry among others
 - **Drone Delivery Canada (DDC)** achieved approval for BVLOS flights for its DroneCare route, delivery capabilities in the healthcare market segment.

Annual Sales Metrics

Sales Revenue
\$1,541K USD (+87%)
 vs \$823K in 2022

Recurring Revenue
\$411K USD (4x)
 vs \$73K in 2022

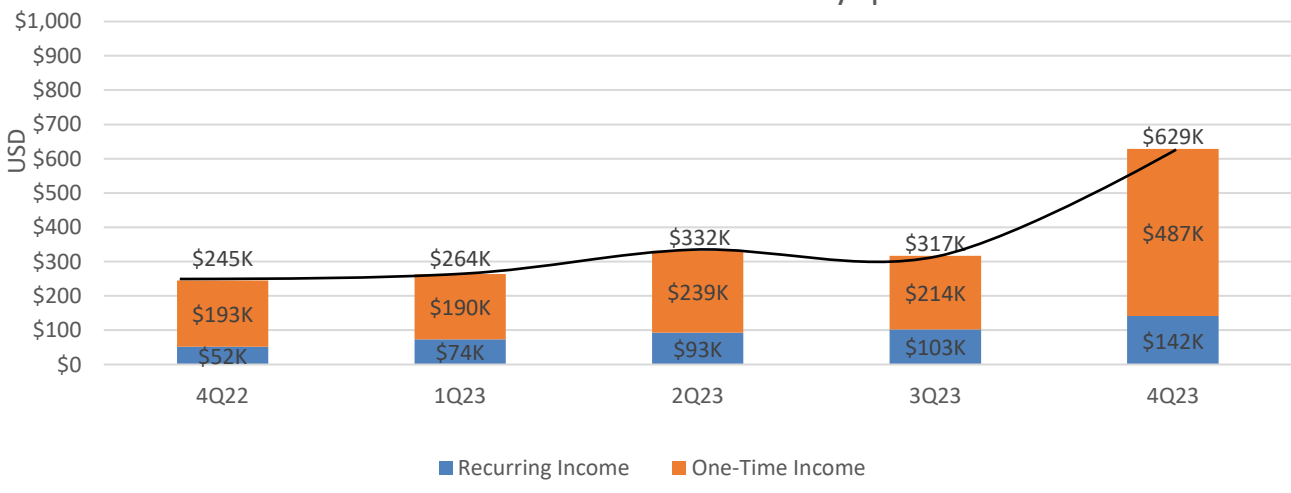
Gross Profit
\$807K USD (+85%)
 vs \$436K in 2022

New Territories
Australia (Sphere Drones)
Japan (ACSL)

Material uptake in HLS market orders
\$621K USD (+111%)
 vs \$261K in 2022

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Recurrent income of total by quarter



'Design-Win' strategy contributing to continued product scalability

- In **H2**, Elsight enjoyed a sharp increase in the demand for dependable communications of data and video in the homeland security, military, and defense sectors. Customers came from the IDF and other large defense contractors, including DDR&D (the equivalent of DARPA in the U.S.). The Company's management sees this trend continuing and expanding in 2024 by applying a wide range of new use cases to adjacent markets such as global homeland security, border control, and defense markets.

New product features and developments

Elsight continued to innovate during 2023 and introduced several major product features:

- **H1/23** was dedicated to the Remote ID (RID) being incorporated on all Halo devices to align with United States Federal Aviation Administration (US FAA part 89) requirements. Having this compliance will ease the certification process for our partners while saving them costs by eliminating the need for additional dedicated hardware. The Halo RID capability was recently accepted by the FAA and it adheres to the FAA's accepted RID-ASTM-F3586-22-NOA-22-01 Means Of Compliance (MOC).
- In **H2/23**, Elsight unveiled a Global version of its Halo drone communications system, which will allow operators to fly anywhere in the world without the need for equipment replacement to accommodate different cellular systems and operators.

In addition, the Company is constantly investing in enhancing its portfolio security with an innovative product roadmap of transformative new products and features.

2023 An inflection point of growth

The Company continued to enjoy YoY growth in revenues from US\$823K in 2022 to US\$1,541K in 2023, a growth of 87%. Gross margin remained the same in 2023 at 53%. Recurring revenue increased in 2023 by 463% at US\$411K versus US\$73K in 2022.

This acceleration is due to Elsight's proprietary data communication and cloud services as more Halos are being deployed with new and existing customers. Market growth is also boosted by the Halo's scalability, enabling more drones to fly concurrently by one operator and reducing the dependency on personnel. The number of new customers acquired in 2023 (51) for a grand total of 115 Design Wins.

As the uncrewed market grows, Elsight profits

As the market continues to mature and the rate of adoption grows, the impact of the increasing recurring revenues will become more and more material. The growth came from both existing as well as new customers.

Taking all the Design-Wins that have been previously reported with new ones constantly added throughout 2023, the recurring revenue growth continues to validate the Company's strategy to win increased market share through new Design-Win partners, growing together as they expand their business throughout various vertical markets.

Elsight Webinar Presentation on 7 March at 5.00 pm AEDT.

Elsight plans to hold a webinar presentation on 7 March at 5.00 pm AEDT, to provide a business update and go through the 2023 preliminary results.

Please register in advance [HERE](#).

This will be an opportunity to hear from the CEO, Yoav Amitai, and the other Directors.

The Company looks forward to meeting with our shareholders at this presentation, where you will also be given the chance to participate in a Q&A session.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

No matter or circumstance has arisen since 31 December 2023 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.

| | Note | 31 December 2023 US\$ | 31 December 2022 US\$ |
|---|------|-----------------------------|-----------------------------|
| Revenue from contracts with customers | | 1,541,168 | 823,241 |
| Cost of sales | | (733,644) | (387,159) |
| Gross profit | | 807,524 | 436,082 |
| Other income | | 202,627 | 217,980 |
| Selling, general and administrative expenses | | (3,641,306) | (4,451,842) |
| Net share-based payments expense | | (400,949) | (496,196) |
| Loss before finance expense | | (3,032,104) | (4,293,976) |
| Net finance expenses | 2 | (651,428) | (12,457) |
| Loss before income tax expense | | (3,683,532) | (4,306,433) |
| Income tax expense | | - | - |
| Loss after income tax expense for the year attributable to the owners of Elsieht Limited | | (3,683,532) | (4,306,433) |
| Other comprehensive loss | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation, net of tax | | (244,250) | (264,849) |
| Other comprehensive loss for the year, net of tax | | (244,250) | (264,849) |
| Total comprehensive loss for the year attributable to the owners of Elsieht Limited | | (3,927,782) | (4,571,282) |
| | | Cents | Cents |
| Loss per share attributable to owners of the Company attributable to the owners of Elsieht Limited | | | |
| Basic loss per share | | (2.45) | (2.97) |
| Diluted loss per share | | (2.45) | (2.97) |

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

| | Note | 31 December 2023 US\$ | 31 December 2022 US\$ |
|--------------------------------------|------|-----------------------------|-----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 2,702,593 | 5,194,794 |
| Trade and other receivables | | 661,753 | 584,200 |
| Inventory | | 689,267 | 951,942 |
| Total current assets | | 4,053,613 | 6,730,936 |
| Non-current assets | | | |
| Plant and equipment, net | | 107,092 | 140,114 |
| Right-of-use assets | | 242,262 | 112,639 |
| Intangible assets, net | | 33,590 | 21,319 |
| Total non-current assets | | 382,944 | 274,072 |
| Total assets | | 4,436,557 | 7,005,008 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 529,116 | 736,655 |
| Contract liabilities | 3 | 196,664 | 117,897 |
| Convertible notes | 4 | 4,983,627 | - |
| Lease liabilities | | 179,123 | 87,089 |
| Total current liabilities | | 5,888,530 | 941,641 |
| Non-current liabilities | | | |
| Convertible notes | 4 | 93,349 | 4,138,048 |
| Lease liabilities | | 68,891 | 28,795 |
| Provisions | | 46,762 | 47,028 |
| Total non-current liabilities | | 209,002 | 4,213,871 |
| Total liabilities | | 6,097,532 | 5,155,512 |
| Net (liabilities)/assets | | (1,660,975) | 1,849,496 |
| Equity | | | |
| Issued capital | | 23,750,494 | 23,749,096 |
| Reserves | | 666,567 | 1,511,908 |
| Accumulated losses | | (26,078,036) | (23,411,508) |
| Total equity/(deficiency) | | (1,660,975) | 1,849,496 |

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

| | 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) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | | |
| Issue of Shares, net of transaction costs | 2,373,904 | - | - | - | - | - | 2,373,904 |
| Share-based payments | - | 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

| | Issued capital US\$ | Share-based payment Reserve US\$ | Foreign Exchange Reserve US\$ | Predecessor Accounting Reserve US\$ | Equity reserve US\$ | Accumulated losses US\$ | Total deficiency in equity US\$ |
|--|------------------------|-------------------------------------|----------------------------------|--|------------------------|----------------------------|------------------------------------|
| Balance at 1 January 2023 | 23,749,095 | 1,852,331 | (762,039) | (296,796) | 718,413 | (23,411,508) | 1,849,496 |
| Loss after income tax expense for the year | - | - | - | - | - | (3,683,532) | (3,683,532) |
| Other comprehensive loss for the year, net of tax | - | - | (244,250) | - | - | - | (244,250) |
| Total comprehensive loss for the year | - | - | (244,250) | - | - | (3,683,532) | (3,927,782) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | | |
| Issue of Shares, net of transaction costs | 1,399 | - | - | - | - | - | 1,399 |
| Share-based payments | - | 400,949 | - | - | - | - | 400,949 |
| Exercise, expiry and cancellation of options | - | (1,017,004) | - | - | - | 1,017,004 | - |
| Financial instruments recognised in equity (note 3) | - | - | - | - | 14,963 | - | 14,963 |
| Balance at 31 December 2023 | 23,750,494 | 1,236,276 | (1,006,289) | (296,796) | 733,376 | (26,078,036) | (1,660,975) |

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

| | 31 December 2023 US\$ | 31 December 2022 US\$ |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities | | |
| Receipts from customers | 1,338,606 | 965,095 |
| Payments to suppliers and employees | (3,891,150) | (4,623,972) |
| Interest received | 184,804 | 1,804 |
| Interest paid | (14,718) | (14,227) |
| Proceeds from government grants | 190,135 | - |
| Net cash used in operating activities | (2,192,323) | (3,671,300) |
| Cash flows from investing activities | | |
| Purchase of plant and equipment | (8,079) | (3,532) |
| Purchase of intangible assets | (36,000) | - |
| Net cash used in investing activities | (44,079) | (3,532) |
| Cash flows from financing activities | | |
| Proceeds from convertible notes | 69,685 | 4,810,613 |
| Net proceeds from the issue of shares | 1,231 | 2,376,051 |
| Principal elements of lease payments | (190,338) | (224,147) |
| Net cash (used in)/from financing activities | (119,422) | 6,962,517 |
| Net (decrease)/increase in cash and cash equivalents | (2,355,824) | 3,287,685 |
| Cash and cash equivalents at the beginning of the financial year | 5,194,794 | 1,990,057 |
| Effects of exchange rate changes on cash and cash equivalents | (136,377) | (82,948) |
| Cash and cash equivalents at the end of the financial year | 2,702,593 | 5,194,794 |

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

Note 1. Basis of preparation

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entities (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 preliminary final report has been prepared in accordance with ASX listing rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report has 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*. The financial statements have been prepared on an accruals basis and are based on historical costs.

Going concern

The financial statements are prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Directors have taken the following matters into consideration in forming a view that the Group is a going concern, amongst other matters:

- The Group has cash on hand of US\$2,702,593 at 31 December 2023;
- The 25,149,500 convertible notes maturing 30 December 2024 are expected to be converted to equity, refinanced to extend their maturity date, or be refinanced via other means;
- The Directors have the ability to manage the quantum and timing of operating expenditures and related cash flows should the need arise; and
- The Group is expected to have access to a range of working capital finance opportunities should it choose to increase its funding.

Note 2. Finance expenses/(income)

| | 31 December 2023 US\$ | 31 December 2022 US\$ |
|--|-----------------------------|-----------------------------|
| Interest income | (184,805) | (1,804) |
| Accrued and effective interest on convertible notes (note 4) | 821,315 | - |
| Interest on borrowings and bank fees | 7,275 | 7,095 |
| Implied interest on leases | 7,643 | 7,166 |
| | <hr/> | <hr/> |
| Total net finance expenses | <u>651,428</u> | <u>12,457</u> |

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Note 4. Convertible notes (continued)

Note 3. Contract liabilities

| | 31 December 2023 US\$ | 31 December 2022 US\$ |
|---|-----------------------------|-----------------------------|
| CURRENT | | |
| Contract liabilities – deferred revenue | 142,534 | 117,897 |
| Contract liabilities - Israel Innovation Authority government grant | 54,130 | - |
| | <u>196,664</u> | <u>117,897</u> |

Accounting policy for contract liabilities – deferred revenue

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

Accounting policy for contract liabilities – Israel Innovation Authority government grant

Contract liabilities represent grant proceeds received in excess of expenses incurred for which the grants are intended to compensate.

Note 4. Convertible notes

| | 31 December 2023 US\$ | 31 December 2022 US\$ |
|--|-----------------------------|-----------------------------|
| CURRENT | | |
| Convertible notes | 4,983,627 | - |
| NON-CURRENT | | |
| Convertible notes | 93,349 | 4,138,048 |
| Net carrying amount of convertible notes | <u>5,076,976</u> | <u>4,138,048</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. On 5 April 2023 the Group issued a further 433,833 convertible notes, bringing the total number of convertible notes on issue at 31 December 2023 to 25,583,333.

The balance of US\$4,983,627 relates to 25,149,500 convertible notes maturing on 30 December 2024 is classified as current. The balance of US \$93,349 relates to 433,833 convertible notes maturing on 5 April 2025 is non-current.

The notes are convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable on the above maturity dates. 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 is as follows:

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Note 4. Convertible notes (continued)

| | US\$ |
|---|-------------------------|
| Face value of convertible notes | 5,123,481 |
| Transaction costs | (227,522) |
| Conversion option recognised in equity, net | (757,911) |
| Value recognised at 31 December 2022 | <u>4,138,048</u> |
| Face value of 433,833 convertible notes | 87,912 |
| Transaction costs adjustment | 13,078 |
| Conversion option recognised in equity, net | (14,963) |
| Accrued interest | 405,644 |
| Effective interest | 415,671 |
| Foreign currency translation adjustment | <u>31,586</u> |
| Value recognised at 31 December 2023 | <u><u>5,076,976</u></u> |

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.

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