

June 2021 Quarterly Activities Report and Appendix 4C

Key Highlights:

- Elsight continues the strategy change in shifting from direct to channel sales with signing the first ‘Elite Level Partner’ agreement with Tech Data
- Elsight’s Halo product now integrated into all Drones operating within the NAAMA Hadera Initiative as a Design Win<sup>1</sup>
- Regulation progress – Elsight has completed Verizon’s Airborne LTE Operations (ALO) certificate for its Halo flagship product. Airobotics completed all required FAA tests, and is waiting for the FAA to grant Type Certification (TC).
- Elsight launched the Halo Value Investment Program (VIP) for the expansion in the commercial BVLOS market.

Elsight Limited (ASX: ELS) (‘Elsight Ltd, ‘Elsight’ or ‘the Company’), the carrier agnostic, AI powered drone connectivity solutions company, is pleased to provide the following **Business Update**, outlining the Company’s current achievements.

**First ‘Elite Level Partner’ agreement**

As announced on 13 July 2021, Elsight has completed an agreement with its first USA major tech partner, Tech Data Corporation ([www.techdata.com](http://www.techdata.com)), a leading global IT distributor and solutions aggregator to be a lead distributor for Elsight sales in North America. Tech Data is a versatile global IT partner at the heart of the technology ecosystem with a dedicated approach to uniting IT solutions that deliver business outcomes today and unlock growth for tomorrow. With reach, capabilities and resources that span the technology continuum from edge-to-cloud Tech Data delivers insights and optimized solutions channel partners depend on to compete in an evolving market.

This agreement is a harbinger of the Company’s transition from direct sales to channel sales. For Elsight to effectively go to the broadband market with its many potential opportunities, with Halo, it is critical to

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<sup>1</sup> **Design Win** results in exclusive use of “Halo” in a given Drone model from here on. This “unbreakable marriage” is caused by the extensive year plus certification process of the Drone. In the unlikely event that the Drone company decides to replace “Halo” with another solution, they will have to go through a costly and more than yearlong certification process once again.

establish a strong network of partners – Signing the first partner agreement with the world’s largest IT distributor is creating a good basis for this infrastructure of partners.

Please note that the training of Tech Data has begun. Furthermore, Tech Data is due to conclude the keying in of Halo’s catalog numbers into their own systems by no later than 13/08/2021, as a prerequisite step prior to actual sales activities. Therefore, relevant revenues should start to appear as early as September 2021, with material revenues derived from this agreement during Q4/2021. Please also note that one or two additional material channel agreements are expected toward the end of this quarter and Q4/2021.

### **NAAMA Hadera Initiative – Parcel Drone Delivery**

The NAAMA Initiative (Hebrew acronym for Urban Aerial Transport) - developing agile regulation and supporting ecosystem to enable drones and UAM<sup>2</sup> operations to deliver on the ultimate platform and testbed for large scale parcel drone deliveries.

Elsight has been integrated into the NAAMA Hadera Initiative as of its inception, in March 2021. Under the title “The birth of an Industry,” and as a World’s First, from June 20<sup>th</sup> to 1<sup>st</sup> July 2021 five companies participated in this extraordinary demonstration of parcel drone delivery, beyond line of sight and in populated city environments. The event included more than 4,000 package delivery flights and was monitored by most of the world’s leading players, with special focus on the USA. All participating BVLOS drone companies elected to equip their drones with Elsight’s Halo on board (which is now considered the new industry standard for drone connectivity).

In the wake of COVID-19 and the enormous challenges that it poses, the state of Israel launched its NAAMA Initiative. In October 2020, the Israel Innovation Authority, as part of the NAAMA initiative, released its first call for a proposal to demonstrate UTM (Unmanned Traffic Management) capabilities. This unique project is calling for companies to join this first-ever demonstration of operating several UAS (Unmanned Aerial Systems) in a dense urban area. Collaborative and agile regulation brings together a vibrant drone ecosystem - by bringing together the public and private sectors, the drone ecosystem can develop a better understanding of the needs of both sectors. This conversation provided regulators with an understanding of the technical capabilities, user cases, gaps and how to support and build a more resilient regulatory ecosystem.

As a direct result of Elsight’s involvement in the NAAMA Initiative it allows the Company to be at the forefront of the drone industry, forming relationships with key leading players in this vibrant drone industry, leading to future commercial partnerships. During and right after the conclusion of the event

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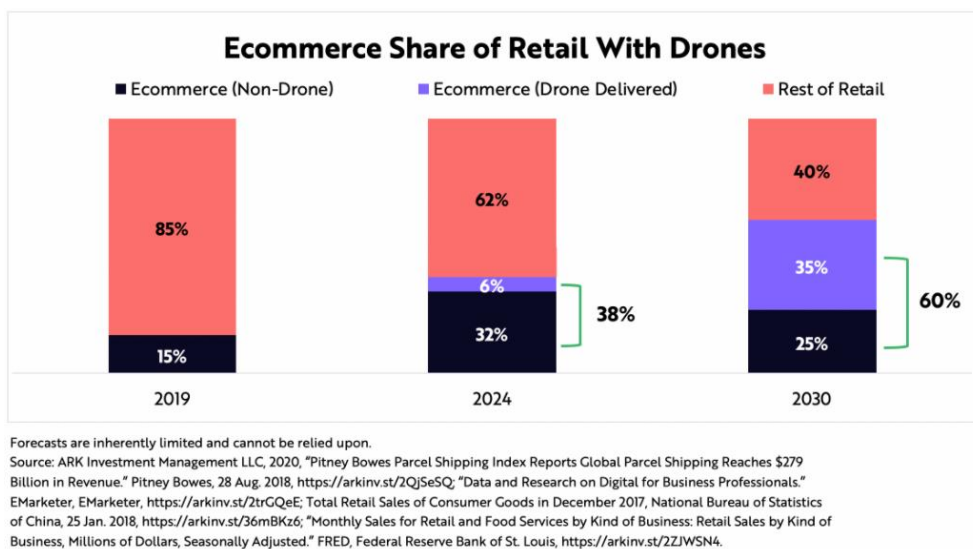
<sup>2</sup> Urban Air Mobility (UAM) - New technologies such as electric propulsion and enhanced battery capacity, applied to vertical take-off and landing systems, make this possible.

Elsight’s senior management was invited and travelled to the West Coast of the USA to meet with the management of some of the largest players in this embryonic industry.

At this stage, Elsieht and Halo have established a preeminent position as a leading brand in quality drone communication. Two key points of interest are:

1. The Parcel Drone Delivery segment is an embryonic market segment that will start taking off only once the regulations are officially in place. Elsieht’s strategy is to position itself now with as many design wins as possible (with relatively small orders now), and to grow with the industry since Elsieht’s Halo product would be embedded in each drone and certified as one – as the drone delivery industry (of the likes of Amazon, Walmart, UPS, etc.) gathers further momentum.
2. Originally Ark Invest (ARK), estimated that given regulatory approval in the USA, a drone could deliver a package in less than half an hour profitably today for \$0.90, cutting the cost of domestic shipping by roughly 90%. Adjusting for the efficiency of autonomous flight and the amount of human intervention, ARK now estimates that **parcel drones could deliver packages profitably for only \$0.25**. Given frictionless and inexpensive delivery, consumers probably would buy many more goods online, growing ecommerce’s share of retail sales from 14% in 2019 to 60% in 2030, with drones delivering more than half of the e-commerce volumes, as shown below. It is further estimated that by 2024, ecommerce and parcel drone delivery combined will account to 38% of their deliveries, and by 2030 this number would grow to 60% of the deliveries<sup>3</sup>.

The next NAAMA initiative event is planned to take place in **Tel-Aviv**. For a video on Elsieht’s participation in NAAMA Hedera, please [follow this link](#).



## Regulation progress

<sup>3</sup> Source: "Parcel Drone Delivery Should Supercharge Ecommerce" by Tasha Keeney, CFA, Analyst, 13.03.2020

**FAA update** - Not surprisingly, Elsieht's visibility into the FAA's certification process release date plan is limited. The best way to monitor the FAA's plans are through actual steps that are taking place on the ground. In that respect we can report the following progress that may help us assess the certification process status through Airobotics' activities:

1. After a long silence, since the conclusion of the G1 public hearing process conducted by the FAA toward the end of 2020, the FAA added only one additional level test to the engines of the drones.
2. During the month of June, Elsieht's partner, Airobotics, has gone through this additional noise test and thereby concluded all the required tests to grant the Type Certification.
3. Furthermore, and as a sign of confidence in the progress with the FAA, Airobotics issued a prospectus toward an IPO on the Tel Aviv Stock Exchange in the next 60 days.

**Verizon Airborne LTE Operations (ALO) certification** – As Part of Elsieht's effort to become the market leader in drone connectivity solutions, the Company has recently completed one of the first ALO certification on the North American cellular provider Verizon to its flagship product – the Halo. The certificate will enable the Company's customers to work on the Verizon network with their drone operations and by that, will expand the Company reach.

### **Halo Value Investment Program**

Elsieht has recently announced the launch of their globally available **Halo Value Investment Program (Halo VIP)** to accelerate drone company expansion into beyond the visual line of sight (**BVLOS**) operations. As part of the program, Elsieht provides the critical communication capabilities to help companies accelerate and achieve certification, grow and scale their commercial drone operations and enhance their profitability.

With the increasing frequency of investment in the drone market, and the continuing growth in BVLOS commercial capabilities and operations, Elsieht recognised the need to provide a program that facilitates the evolution of visual line of sight drone companies to BVLOS. The program not only provides investment from Elsieht in the form of the Halo solution, but also a SMART Start Program to help those companies strategically plan, manage implementation, align operations, obtain training and monetise profitably.

The Halo VIP is available globally to UAV/Drone Manufacturers, service providers, enabling technology companies, and strategic partners.

Since the Program launch, the Company is experiencing great interest from worldwide prospects interested in qualifying to the program.

### **Business Activities Expenditure**

In accordance with ASX Listing Rule 4.7C.1, with respect to operating activities expenditure, Elsieht can confirm total direct operating expenditure was \$1,641,000 for the June 2021 quarter, consisting of product manufacturing and operating costs of \$361,000 on stocking up with inventory due to a worldwide shortage

of components and increased lead time for them. Research and development expenses of \$495,000 on developing new features and improving the abilities of the HALO to remain the cutting edge technology in the connectivity industry. Sales and marketing costs of \$299,000 on expanding the company market reach and enhancing the company's brand awareness. Staff costs of \$213,000, and administration and corporate costs of \$273,000. Net cash used in the operating activities was \$1,389,000 due to cash inflows totalling \$252,000 from revenue.

In accordance with Listing Rule 4.7C.3, the Company advises that payments to related parties of the entity and their associates during the Quarter amounted to \$102,000. Amounts included in 6.1 in the attached Appendix 4C relates to remuneration paid to Directors.

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

**-ENDS-**

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**About Elsight**

**Elsight** ([www.elsight.com](http://www.elsight.com)) Elsight 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.

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

ELSIGHT LIMITED

**ABN**

98 616 435 753

**Quarter ended ("current quarter")**

30 June 2021

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (6 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	252	299
1.2 Payments for		
(a) research and development	(495)	(884)
(b) product manufacturing and operating costs	(361)	(833)
(c) advertising and marketing	(299)	(610)
(d) leased assets	-	-
(e) staff costs	(213)	(569)
(f) administration and corporate costs	(273)	(539)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,389)</b>	<b>(3,136)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(13)	(28)
(d) investments	-	(2)
(e) intellectual property	-	-
(f) other non-current assets	-	-

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	40	40
	(d) investments	110	110
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>137</b>	<b>120</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(12)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(7)	(54)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – principal elements of lease payments	-	-
3.9	Other – proceeds collected from the sale of Non-Eligible Foreign Shareholders' Entitlements in Q4 2020 and distributed to the Non-Eligible Foreign Shareholders in Q1 2021	-	(34)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(7)</b>	<b>(100)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	6,068	7,924
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,389)	(3,136)

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

4.3	Net cash from / (used in) investing activities (item 2.6 above)	137	120
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(7)	(100)
4.5	Effect of movement in exchange rates on cash held	(13)	(12)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>4,796</b>	<b>4,796</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter</b> <b>\$US'000</b>	<b>Previous quarter</b> <b>\$US'000</b>
5.1	Bank balances	2,124	3,068
5.2	Call deposits	2,672	3,000
5.3	Bank overdrafts	-	-
5.4	Other – proceeds held in relation to Non-Eligible Foreign Shareholders' Entitlements	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,796</b>	<b>6,068</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter</b> <b>\$US'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1 – Payment to directors for their salaries and fees.	102
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*



<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$US'000</b>	<b>Amount drawn at quarter end \$US'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-
7.5 <b>Unused financing facilities available at quarter end</b>		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

<b>8. Estimated cash available for future operating activities</b>	<b>\$US'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,390)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,796
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,796
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	3.5 <sup>1</sup>
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

<sup>1</sup> The estimated 3.5 quarters does not include expected receipts for the remainder of this year or into next year.

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 July 2021

Authorised by: The Board of Directors  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.