



ELSIGHT LIMITED

ABN 98 616 435 753

**ANNUAL REPORT
31 DECEMBER 2021**

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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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CHAIRMAN'S LETTER

Dear Shareholders,

As Elsight's Chairman, it is my pleasure to provide an update on the Company and the significant progress over the last 12 months. Against the backdrop of continued disruptions to normal market activities from the worldwide COVID-19 pandemic, 2021 heralded significant developments for Elsight behind the scenes as we worked extensively on building, constantly improving, and testing our technology applications and increasing the brand profile.

The drone industry continued to make significant commercial inroads across a number of industries in 2021 and as a result, Elsight responded and shifted its strategy to address new market opportunities across the unmanned aerial vehicle (UAV) sector. As part of this transition, the Company implemented a strategy to focus on securing 'Design Wins' with potential customers and partners to ensure that Elsight is part of their future development growth plans.

Throughout 2021, the Company completed a number of substantial trials and integrations with a range of companies which culminated in Elsight securing 28 'Design Wins' (while 13 others are still in a work in progress stage). With multiple commercial opportunities for drones across several industries, these 'Design Wins' represent a diverse variety of project type and application which ensures that Elsight is well-positioned to grow and scale organically within the fast-evolving drone industry.

Subsequent to year end, the 'Design Win' strategy delivered its first results with DroneUp, a leading US-based complete UAV services provider, selecting Elsight's "Halo" for their commercial drone parcel delivery project at Walmart. This collaboration validates the Company's 'Design Win' strategy within the drone industry and is a strong indicator of Elsight's ability to be a solutions provider when organizations need uncompromised connection confidence.

While Drone Package Delivery Beyond Visual Line of Sight (BVLOS) is a very promising market opportunity, we look forward to building on this success as the foundation has now been laid for other large-scale commercial drone application opportunities in the future. As was reported on March 16, 2022, by Greg Nichols of ZD NET, the good news is that "Drone delivery nearer to take-off following latest FAA recommendations".

Elsight continues work on the Company's other key business vertical – the O4B (Other 4 billion people, living in areas without or with limited internet/cellular coverage) by securing new partnerships and distribution companies, integral to transitioning from direct sales to channel sales in the broadband market. With major funds allocated by the American Government to upgrade the United States' infrastructure nationally – including plans to expand broadband and wireless broadband to every American – Elsight is poised to offer agents, distributors, and communities' access to the Company's connectivity solutions.

This financial year brought challenges to businesses globally due to the continued impact of COVID-19 on global supply chains. However, with sound planning and foresight, the Company took a number of steps to increase its semiconductor inventory supply in anticipation of potential supply shortages during the second and fourth quarters of FY21 in order to continue production and meet customer demand. The Company is now well positioned to avoid further inventory disruptions impacting business operations.

During the year, the Company appointed Mr Jim Landau to the Board as a Non-Executive Director following the resignation of Mr Peter Marks. Mr Landau has 40 years' experience as a technology entrepreneur and mentor and brings significant experience to the Elsight team.

I have great confidence for the year ahead as we continue to drive value for all of our Shareholders, and I would like to personally thank you for your ongoing support. I look forward to providing further updates to Shareholders on our progress in due course.

Sincerely,

Maj. Gen. (ret) Ami Shafran
Chairman
28 March 2022

DIRECTORS' REPORT

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 2021.

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	-
Mr Peter Marks	Non-Executive Director	9 January 2020	1 October 2021

Principal Activities

The principal activities of the Group during the year were the development and commercialisation of Halo in the UAV market.

Dividends

There were no dividends paid or recommended during the financial year ended 31 December 2021 (2020: Nil).

Review and results of operations

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

Elsight Limited incurred a loss for the year of \$6,043,694 (2020: loss of \$3,880,688). The increase in loss of \$2,163,006 from 2021 to 2020 is mainly from the increase in costs associated with research, sales and marketing costs due to new market developments in the unmanned market, and bad debts expenses incurred during the 2021 year.

The net assets of the Group have decreased by \$5,600,564, from net assets of \$8,432,829 at 31 December 2020 to net assets of \$2,832,265 at 31 December 2021.

As at 31 December 2021, the Group's cash and cash equivalents decreased from a balance of \$7,924,309 at 31 December 2020 to a balance of \$1,990,057 at 31 December 2021. As at 31 December 2021 the Group has working capital of \$2,403,409 (2020: \$8,132,701).

The Company currently has 16,728,000 options on issue with a A\$0.20 strike price, expiring 2 June 2022. Throughout the 2021 financial year and at the time of releasing this report, these options have been 'in-the-money'. Should these options be fully exercised in accordance with the option terms, this would potentially raise A\$ 3,345,600 for the Company via the issue of 16,728,000 Fully Paid Ordinary Shares, further adding to the Group's current cash position.

Significant changes in the state of affairs

There were no significant changes to the Company or the state of its affairs during the year.

Review of activities

During the period, Elsieht focused on increasing the brand profile and awareness in the unmanned aerial vehicle (UAV) industry and has begun capitalizing on commercial opportunities within the fast-growing drone market via the Company's 'design win' strategy.

Subsequent to the end of the reporting period, the Company was pleased to announce that DroneUp, a leading US-based complete UAV services provider, selected Elsieht's "Halo" for their commercial drone parcel delivery project at Walmart. This order is the first material commercial order of "Halo" in the UAV vertical and includes a monthly recurring revenue component. This key design win, one of 28 during the calendar year, serves to both amplify expansion efforts in the North American drone market and acts as a foundation for further commercial opportunities in the Drone Parcel Delivery and UAV market.

The Group also continues work in regard to securing and strengthening partnerships, key to transitioning from direct sales to channel sales in the broadband market.

Drone Market Update and Opportunities

Since May 2021, the Group has been involved in 41 extensive trials and worked closely with a range of drone companies. To date, more than half of these efforts already have been successfully concluded. This is how the Company was able to secure 28 successful 'Design Win' integrations and trials aimed at producing revenues once these projects are commercially launched, with no need for additional contract negotiations. Similar to the semiconductor industry, where the design win concept indicates that a company's product has been specified and embedded into a larger product design, which is intended to produce revenues for many years into the future (for example, a new iPhone model), it is expected that 'design wins' in the drone industry will be of key importance. Once your product has been selected and certified for a particular drone, it will be very difficult to displace it due to the extensive testing, regulations, and certifications required for a new product release. Furthermore, it is important to understand that the Group is not focused on a single market. These 28, already won 'Design Wins', represent a variety of different types of projects and applications. The Company will continue to diversify by pursuing new prospective customers to ensure that once the industry reaches the inflexion point of mainstream commercial adoption, that Elsieht is very well positioned to grow organically with them.

Calendar 2021 was a year marked by extensive work performed behind the scenes as the Group conducted many long trials, tests, integrations, and certifications toward Design Wins, with 28 successfully concluded and many others still progressing. With the exception of DroneUp, these design wins are yet to produce material revenues for the Group, however they have laid a solid foundation for future organic growth with the fast evolving drone industry.

The drone market in general, and the Drone Package Delivery Beyond Visual Line of Sight (BVLOS) in particular, are one of Elsieht's most promising markets. However, whilst being on the verge of large scale deployment and exponential growth, these markets are still in a pre-mass deployment stage.

In March 2021 the Group was integrated into the NAAMA Hadera Initiative as part of its inception. Elsieht's involvement in the NAAMA Initiative allows the Company to be at the forefront of the drone industry, forming relationships with key leading players, leading to future commercial partnerships. Later in the year (October 2021), as part of the NAAMA Initiative, five companies participated in an extraordinary demonstration of drone parcel delivery, beyond line of sight and in populated city environments. All participating BVLOS drone companies elected to equip their drones with Elsieht's "Halo" on board.

The Group participated in Phase 4 of the NAAMA Project, which focused on using drones for search and rescue missions in November 2021. Phase 4 used the opportunity to successfully test two technologies under development: 5G mapping and Remote-ID broadcasting.

In July 2021 Elsieht completed one of the first ALO certifications on the North American cellular provider Verizon to its flagship product – the Halo. The certificate will enable the Group's customers to work on the Verizon network with their drone operations and by that, will expand the Group's reach.

In July 2021 the Group launched their globally available Halo Value Investment Program (HALO VIP) to accelerate drone company expansion into Beyond the Visual Line of Sight (BVLOS) operations.

During August – September, Elsieht participated in two main unmanned exhibitions, AUVSI Exponential 2021 in Atlanta, Georgia, USA and The Commercial UAV Expo Americas in Las Vegas, Nevada, USA. These exhibitions primarily focused on the current state and future potential of the unmanned market.

In late September, the Group concluded a successful 10-day drones parcel delivery demonstration in Arkansas as part of the world's most ambitious project of its kind to date.

Following the worldwide semiconductor crisis, which emerged in 2021, Elsieht took the initiative in the second quarter of FY 2021 to increase inventories in anticipation of potential supply shortages and continued this initiative in the fourth quarter of 2021 in order to prevent supply chain disruptions to customers.

Elsieht Partner Program

Elsieht's Partner Program, as announced during the 30 June 2021 Interim Report, continues to progress via a growing community of channel partners in North America. President Biden's 'American Jobs Plan' (15 April 2021) in which \$2 trillion has been allocated to overhaul and upgrade the United States' infrastructure nationally – including expanding broadband and wireless broadband to every American – continues to provide an opportunity for the Company moving forward.

With the US Government's initiative in mind, Elsieht looks to offer agents, distributors and the partner community access to Elsieht's connectivity solutions and award-winning support. Both partnerships with JS Group and Tech Data Corporation are assisting the Company's transition from direct sales to channel sales as Elsieht works to create a solid network of influential partners and infiltrate the broadband market with its "Halo" solution.

Matters Subsequent to the Reporting Period

On 13 January 2022 the Group announced that its “Halo” bonded connectivity solution has 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. The “Halo” technology will provide DroneUp and Walmart with a robust connection solution to complete the end-to-end link between the drone, with all communication technologies, DroneUp field drone hub and DroneUp control-centre.

DroneUp has placed the first commercial order of Elsieht’s “Halo” to support their initial fleet of drones (this order is equivalent to ~80% of 1H 2021 revenues for Elsieht). The order of “Halo” units combined with monthly recurring Elsieht cloud and SIM card services has been received by DroneUp for deployment.

Importantly, Walmart announced a large strategic investment in DroneUp in June 2021. As Walmart roll out their services, others are expected to follow and the Group is well-positioned to grow organically with them. This order with DroneUp affirms the validity of Elsieht’s ‘design win’ strategy within the drone industry and is a great indicator at the potential of the Company’s suite of connectivity solutions and ability to be a solutions provider when businesses need uncompromised connection confidence.

Other than what has already been stated within this Report, there have been no other matters or circumstances that have arisen since the end of the period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the Group in subsequent financial periods.

Corporate

During the year, Mr Jim Landau joined the Board as a Non-Executive Director on 1 October 2021 following Mr Peter Marks’ resignation effective the same date.

Mr Landau has 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 former chairman of Centricom - the developer of the Poli Payments platform, a director of Collaborate Corporation and held roles as director or advisor to several cutting-edge technology companies, including those involved with the emerging UAV industry.

Mr Landau is based in Melbourne, Australia and holds Fellowships of the Australian Society of Certified Practicing Accountants, the Financial Services Institute of Australasia, and the Australian Institute of Company Directors.

DIRECTORS' REPORT

Information on Directors

Major General (ret) Ami Shafran 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.

Interest in Shares and Options at the date of this report

100,000 options expiring 9 October 2022 exercisable at A\$0.60

Special Responsibilities

Nil

Directorships held in other listed entities (last 3 years)

Nil

Mr David Furstenberg Executive Director (Appointed 2 June 2017)

Qualifications

-

Experience

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 became an Executive Director of the Company from 1 November 2020.

Interest in Shares and Options at the date of this report

250,000 options expiring 9 October 2022 exercisable at A\$0.60

Special Responsibilities

Nil

Directorships held in other listed entities (last 3 years)

Nil

Mr Howard Digby Non-Executive Director (Appointed 13 December 2016)

Qualifications

Bachelor of Engineering (Mechanical) (Honours)

DIRECTORS' REPORT

Information on Directors

Experience	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.
Interest in Shares and Options	2,052,004 Ordinary shares and 128,085 Options expiring 31 March 2023 exercisable at \$0.90
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	4DS Memory Limited (current) Cirralto Limited (current) Singular Healthcare Limited (current) Vortiv Limited (resigned 19 April 2021) IMEXHS Limited (resigned 30 April 2020)

Mr Joshua (Jim) Landau 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.

Interest in Shares and Options Nil

Special Responsibilities Nil

Directorship held in other listed entities (last 3 years) Nil

Mr Peter Marks Non-Executive Director (Appointed 9 January 2020, Resigned 1 October 2021)

Qualifications MBA, Bachelor of Economics, Bachelor of Law, and Grad Dip in Commercial Law

Experience Peter has over 35 years' experience in corporate advisory and investment banking. Over the course of his long career, he has specialized in capital raising IPOs, cross border, M&A transactions, corporate underwriting and venture capital transactions for companies in Australia, the US and Israel. He has been involved in a broad range of transactions with a special focus in the life sciences, biotechnology, medical technology and high tech segments. Peter has served as both an Executive and Non-Executive Director of a number of different entities which have been listed on the ASX, NASDAQ, and AIM markets.

DIRECTORS' REPORT

Information on Directors

Interest in Shares and Options	Nil
Special Responsibilities	Nil
Directorship held in other listed entities (last 3 years)	Alterity Therapeutics Limited (current) Noxopharm Limited (current) Nyrada Inc (current) Fluence Corporation Limited (resigned 31 March 2020)

Information on Key Management

Mr Yoav Amitai	Chief Executive Officer
Qualifications	BSc Mechanical Engineering
Experience	Yoav has been with ElSight for four 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.
Mr Roei Kashi	Vice President – Research and Development
Qualifications	-
Experience	Roei commenced his career in the Israeli Defence Force and has over nine years of experience and expertise in building and developing digital video systems. Roei 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.

Information on Company Secretary

Mr Mark Licciardo	Company Secretary
Qualifications	B.Bus (Acc), GradDip CSP, FGIA, FCIS, FAICD
Experience	Mr Licciardo is the founder and Managing Director of Mertons Corporate Services. Mark has extensive experience working with Boards of ASX listed companies in the areas of corporate governance, accounting & finance and company secretarial practice. His expertise is in developing and guiding effective governance and he is considered a leader in this sector. Mark is a director of various public and private companies, a former Chairman of the Governance Institute of Australia Victorian division, Academy of Design (LCI Melbourne) and Melbourne Fringe Festival and a former company secretary of ASX listed companies Transurban Group and Australian Foundation Investment Company.

DIRECTORS' REPORT

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	Number Attended
Ami Shafran	Appointed 2 June 2017	14	14
David Furstenberg	Appointed 2 June 2017	14	14
Howard Digby	Appointed 13 December 2016	14	14
Joshua Landau	Appointed 1 October 2021	6	6
Peter Marks	Appointed 9 January 2020, Resigned 1 October 2021	9	9

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
2 June 2022	2 June 2017	Unlisted	A\$0.20	8,120,000
2 June 2022	2 June 2017	Unlisted	A\$0.20	8,608,000
9 October 2022	29 December 2017	Unlisted	A\$0.60	89,000
9 October 2022	2 October 2018	Unlisted	A\$0.060	460,000
14 November 2022	9 January 2018	Unlisted	\$A1.08	25,000
4 March 2023	7 May 2018	Unlisted	A\$0.745	12,000
31 March 2023	15 December 2020	Listed	A\$0.90	23,222,653
31 July 2023	2 October 2018	Unlisted	A\$0.675	102,000
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	115,000
23 April 2025	29 June 2020 and 4 August 2020	Unlisted	A\$0.28	1,250,000
15 May 2025	29 June 2020	Unlisted	A\$0.34	150,000
12 June 2025	29 June 2020	Unlisted	A\$0.32	100,000
27 July 2025	23 September 2020	Unlisted	A\$0.30	75,000
1 February 2026	2 February 2021	Unlisted	A\$0.43	160,000
9 March 2026	10 March 2021	Unlisted	A\$0.52	180,000
13 April 2026	20 April 2021	Unlisted	A\$0.50	100,000
14 September 2026	15 September 2021	Unlisted	A\$0.42	759,000
14 September 2026	15 September 2021	Unlisted	A\$0.48	2,290,000
14 December 2026	15 December 2021	Unlisted	A\$0.38	250,000
14 December 2026	15 December 2021	Unlisted	A\$0.44	200,000
				46,517,653

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

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 (2020: 1,774,000 options exercisable at \$A0.30 on or before 2 June 2020 and 1,880,000 options exercisable at A\$0.20 on or before 2 June 2022 were exercised and converted to ordinary Shares).

Proceedings on Behalf of 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 Regulations

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.

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 2021 has been received and can be found on page 19 of the financial report.

DIRECTORS' REPORT

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2021 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 arrangements
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 parties
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 Peter Marks	Non-Executive Director	9 January 2020	1 October 2021
Mr Yoav Amitai	Chief Executive Officer	1 November 2020	-
Mr Roei Kashi	Vice President – Research and Development	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 Vice President – Research and Development. The terms of their Employment Agreements with Elsieht Limited are summarised in the following table.

DIRECTORS' REPORT

3. Executive remuneration arrangements (continued)

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\$37,000 per annum). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the 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	- Executive salary of ILS 600,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$186,000 per annum). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the 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 Roe Kashi	- Executive salary of ILS 660,000 per annum (based on the exchange rate at the date of this report, equals approximately US\$205,000 per annum). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the 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 Elsie 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 no Options issued to key management personnel or their related parties under the Plan during the 2021 financial year (2020: 200,000 Options).

Group Performance

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

Financial Year	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
(Loss)/income for the year	(6,043,694)	(3,880,688)	(3,192,433)	(4,206,972)	(3,119,570)
EPS (cents)	(4.53)	(3.62)	(3.33)	(4.51)	(3.74)
Share price	A\$0.38	A\$0.425	A\$0.39	A\$0.70	A\$1.47

DIRECTORS' REPORT

3. Non-executive Director fee arrangements

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\$217,677) 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\$129,584 (2020: US\$142,795) 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.

4. 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 2021.

31-Dec-21	Short Term Salary, Fees & Commissions US\$	Post- Employment Retirement Benefits US\$	Non- monetary benefits US\$	Termination benefits US\$	Other ⁽ⁱ⁾ US\$	Share- based payments (ii) US\$	Total US\$	Performance based remuneration (iii)
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	4%

31-Dec-20	Short Term Salary, Fees & Commissions US\$	Post- Employment Retirement Benefits US\$	Non- monetary benefits US\$	Termination benefits ^(iv) US\$	Other ⁽ⁱ⁾ US\$	Share- based payments (ii) US\$	Total US\$	Performance based remuneration (iii)
Directors:								
Ami Shafran	51,766 ^(iv)	-	-	-	-	9,409	61,175	15%
David Furstenberg	51,766 ^(iv)	-	-	-	-	23,521	75,287	31%
Howard Digby	31,631	-	-	-	-	-	31,631	-
Peter Marks	49,352	-	-	-	-	-	49,352	-
Nir Gabay	262,940	57,590	13,588	183,407	21,145	24,664	563,334	4%
Raj Logaraj	863	-	-	-	-	-	863	-
Key management:								
Yoav Amitai	128,286	18,765	12,475	-	13,297	22,067	194,890	11%
Roe Kashi	176,928	27,318	9,886	-	23,371	77,915	315,418	25%
Total	753,532	103,673	35,949	183,407	57,813	157,576	1,291,950	12%

⁽ⁱ⁾ Israeli social benefits.

⁽ⁱⁱⁱ⁾ 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.

DIRECTORS' REPORT

5. Details of Remuneration (continued)

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

(iv) 31 December 2020 fees for Ami Shafran are comprised of Non-executive Director fees of US\$34,510 and consulting fees of US\$17,256. Fees for David Furstenberg are comprised of Non-executive Director fees of US\$26,440, executive director fees of US\$8,070 and consulting fees of US\$17,256. Non-executive directors received consulting fees through 30 June 2020 in recognition of services provided to the Company over and above the level of service expected from a non-executive director.

(v) On termination Nir Gabay received ILS 631,359 (US\$183,407) comprised of 12 months average salary calculated on the basis of the aggregate salary paid to Mr Gabay over the past three years plus a pension amount calculated as 6.5% of the average cash salary.

6. Additional disclosures relating to equity instruments

KMP Shareholdings

There were no shares issued as remuneration during the 2021 financial year (2020: nil).

There were no options issued as remuneration during the 2021 financial year (2020: Subsequent to his resignation as a director of the Company, 1,880,000 shares were issued to Mr Nir Gabay during the 2020 financial year on the exercise of remuneration options).

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

31-Dec-21	Balance at start of the year	Shares acquired during the year	Shares sold during the year	Balance at Date of Appointment/ (Resignation)	Balance at end of the year
Directors:					
Ami Shafran	-	-	-	-	-
David Furstenberg	-	-	-	-	-
Howard Digby	2,052,004	-	-	-	2,052,004
Joshua Landau	-	-	-	-	-
Peter Marks	-	-	-	-	-
Key management:					
Yoav Amitai	-	-	-	-	-
Roe Kashi	2,894,775	-	-	-	2,894,775
Total	4,946,779	-	-	-	4,946,779

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.

DIRECTORS' REPORT

6. Additional disclosures relating to equity instruments (continued)

KMP Options Holdings

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:

31-Dec-21	Balance at the start of the year	Granted as remuneration during the year	Other options granted during the year	Expired during the year	Exercised during the year	Cancelled during the year	Balance at Date of Appointment / (Resignation)	Balance at the end of the year
Directors:								
Ami Shafran	100,000	-	-	-	-	-	-	100,000
David Furstenberg	250,000	-	-	-	-	-	-	250,000
Howard Digby	128,085	-	-	-	-	-	-	128,085
Joshua Landau	-	-	-	-	-	-	-	-
Peter Marks	-	-	-	-	-	-	-	-
Key management:								
Yoav Amitai	241,000	-	-	-	-	-	-	241,000
Roe Kashi	8,843,000	-	-	-	-	-	-	8,843,000
Total	9,562,085	-	-	-	-	-	-	9,562,085

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

31-Dec-21	Vested and exercisable	Unvested and un-exercisable	Balance at the end of the year
Directors:			
Ami Shafran	75,000	25,000	100,000
David Furstenberg	187,500	62,500	250,000
Howard Digby	128,085	-	128,085
Key management:			
Yoav Amitai	159,018	81,983	241,000
Roe Kashi	8,801,330	41,670	8,843,000
Total	9,350,933	211,153	9,562,085

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 Options	8,608,000	2-Jun-17	(i)	2-Jun-22	A\$0.20	US\$0.104	100%
ESOP Options	26,000	10-Dec-17	(ii)	9-Oct-22	A\$0.60	US\$0.795	100%
ESOP Director Options	350,000	28-May-18	(iii)	9-Oct-22	\$A0.60	US\$0.265	75%
ESOP Options	15,000	1-Aug-18	(iv)	31-Jul-23	A\$0.675	US\$0.277	81.25%
ESOP Options	100,000	24-Jun-19	(v)	23-Jun-24	\$A0.35	US\$0.182	62.5%
ESOP Options	200,000	10-May-20	(vi)	23-Apr-25	\$A0.28	US\$0.220	58.33%

6. Additional disclosures relating to equity instruments (continued)

(i) 50% of the 8,608,000 options vested on 2 June 2019, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. A total of 1,076,000 options vested during the year ended 31 December 2021. There are no performance milestones applicable to the ESOP Options.

(ii) 50% of the 26,000 options vested on 10 October 2019, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. A total of 6,500 options vested during the year ended 31 December 2021. There are no performance milestones applicable to the ESOP Options.

(iii) 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 2021. There are no performance milestones applicable to the ESOP Options. At 31 December 2020 the Group reported 460,000 ESOP Director Options on issue. The reduction from 460,000 at 31 December 2020 to 350,000 at 31 December 2021 relates to options which continue to be held by Nir and/or Susana Gabay that have been removed from the above table following Nir's resignation on 31 October 2020.

(iv) 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 3,750 options vested during the year ended 31 December 2021. There are no performance milestones applicable to the ESOP Options.

(v) 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 62,500 options vested during the year ended 31 December 2021. There are no performance milestones applicable to the ESOP Options. There are no performance milestones applicable to the ESOP Options.

(vi) 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 116,660 options vested during the year ended 31 December 2021. There are no performance milestones applicable to the ESOP Options and ESOP Director Options.

(vii) The value per option at grant date has been determined using a Black Scholes option pricing model. Share-based payment expense is recorded pro-rata over the vesting period.

31-Dec-21	Fair value of options granted during the year	Value of options vested during the year	Value of options cancelled during the year	Remuneration consisting of options for the year
	US\$	US\$	US\$	US\$
Directors:				
Ami Shafran	-	6,629	-	2,728
David Furstenberg	-	16,573	-	6,819
Key management:				
Yoav Amitai	-	30,410	-	7,529
Roe Kashi	-	124,458	-	12,881
Total	-	178,070	-	29,957

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

At 31 December 2020 there was an amount owing to former Managing Director Mr Nir Gabay of ILS 147,888 (US\$46,000) in relation to Group bank borrowings paid by Mr Gabay. The amount was repaid to Mr Gabay in January 2021. No interest was recorded or incurred in respect of the transaction.

At 31 December 2020 there was an amount owing to Mr Gabay of ILS 631,359 (US\$183,407) in relation to his termination payment. The amount owing was paid during Q1 2021.

DIRECTORS' REPORT

8. Other transactions and balances with KMP and their related parties (continued)

Transactions with related parties are entered into on terms equivalent to those that prevail in arm's length transactions. The Group had the following transactions with members of the Group's key management personnel and/or their related parties during the year.

On termination Mr Gabay purchased the vehicle that had been provided as part of his remuneration package. Mr Gabay paid the Group ILS 131,250 (US\$40,194) for the vehicle which had a carrying value of ILS 168,722 (US\$51,670).

Key Management Personnel or Their Related Party	Nature of transaction	Transaction value US\$	Payable balance US\$
Ami Shafran	Director and consulting fees included within trade and other payables	-	3,023
David Furstenberg	Director and consulting fees included within trade and other payables	-	3,023
Yoav Amitai	Salary and salary related expenses	-	9,763
Roei Kashi	Salary and salary related expenses	-	8,307

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

The Company received 99.85% "Yes" votes cast on its Remuneration Report for the 2020 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.

David Furstenberg

Mr David Furstenberg

Executive Director

28 March 2022

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



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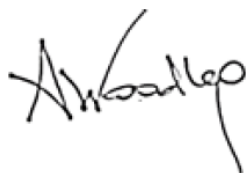
Level 9, Mia Yellagonga Tower 2
5 Spring Street
Perth, WA 6000
PO Box 700 West Perth WA 6872
Australia

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

As lead auditor of Elsight Limited for the year ended 31 December 2021, 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, 28 March 2022

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 US\$	2020 US\$
Revenue from contracts with customers	2	574,014	1,725,209
Cost of sales		(957,538)	(1,230,248)
Gross (loss)/profit		(383,524)	494,961
Other income		-	3,070
Selling, general and administrative expenses	3	(5,379,986)	(3,970,649)
Net share based payments expense	18	(280,569)	(397,793)
Loss before finance expenses		(6,044,079)	(3,870,411)
Net finance income/(expenses)	3	385	(10,277)
Loss before income tax		(6,043,694)	(3,880,688)
Income tax expense		-	-
Loss for the year		(6,043,694)	(3,880,688)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation, net of tax	17(c)	149,226	35,275
Total comprehensive loss for the year attributable to owners of the Company		(5,894,468)	(3,845,413)
Loss per Share attributable to owners of the Company			
Basic loss per share (cents per share)	7	(4.53)	(3.62)
Diluted loss per share (cents per share)	7	(4.53)	(3.62)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021 US\$	2020 US\$
CURRENT ASSETS			
Cash and cash equivalents	8a	1,990,057	7,924,309
Trade and other receivables	9	353,106	1,048,565
Inventory	10	853,338	396,272
TOTAL CURRENT ASSETS		3,196,501	9,369,146
NON-CURRENT ASSETS			
Plant and equipment	11	202,598	255,207
Intangible assets		95,254	163,142
Right of use assets	12	333,929	-
TOTAL NON-CURRENT ASSETS		631,781	418,349
TOTAL ASSETS		3,828,282	9,787,495
CURRENT LIABILITIES			
Trade and other payables	13	577,005	1,227,674
Borrowings		-	8,771
Lease liabilities	14	216,087	-
TOTAL CURRENT LIABILITIES		793,092	1,236,445
NON-CURRENT LIABILITIES			
Borrowings		-	768
Lease liabilities	14	124,498	-
Provision for employees' severance benefits, net	15	78,427	117,453
TOTAL NON-CURRENT LIABILITIES		202,925	118,221
TOTAL LIABILITIES		996,017	1,354,666
NET ASSETS		2,832,265	8,432,829
SHAREHOLDERS' EQUITY			
Issued capital	16	21,375,191	21,361,856
Reserves	17	2,590,315	2,247,015
Accumulated losses		(21,133,241)	(15,176,042)
SHAREHOLDERS' EQUITY		2,832,265	8,432,829

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2021

	Issued Capital	Accumulated losses	Share Based Payment Reserve	Foreign Exchange Reserve	Predecessor Accounting Reserve	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2020	11,739,495	(11,955,220)	2,609,474	(681,691)	(296,796)	1,415,262
Loss for the year	-	(3,880,688)	-	-	-	(3,880,688)
Other comprehensive loss	-	-	-	35,275	-	35,275
Total comprehensive income/(loss) for the year	-	(3,880,688)	-	35,275	-	(3,845,413)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares	9,622,361	-	-	-	-	9,622,361
Exercise and expiry of options	-	659,866	(659,866)	-	-	-
Share based payments	-	-	1,240,619	-	-	1,240,619
Balance at 31 December 2020	21,361,856	(15,176,042)	3,190,227	(646,416)	(296,796)	8,432,829
Balance at 1 January 2021	21,361,856	(15,176,042)	3,190,227	(646,416)	(296,796)	8,432,829
Loss for the year	-	(6,043,694)	-	-	-	(6,043,694)
Other comprehensive income	-	-	-	149,226	-	149,226
Total comprehensive income/(loss) for the year	-	(6,043,694)	-	149,226	-	(5,894,468)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares	13,335	-	-	-	-	13,335
Exercise, expiry and cancellation of options	-	86,495	(86,495)	-	-	-
Share based payments	-	-	280,569	-	-	280,569
Balance at 31 December 2021	21,375,191	(21,133,241)	3,384,301	(497,190)	(296,796)	2,832,265

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 US\$	2020 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		487,027	1,424,163
Payments to suppliers and employees		(6,412,084)	(4,645,176)
Interest received		11,790	3,069
Interest paid		(10,423)	(10,352)
Net cash used in operating activities	8b	(5,923,690)	(3,228,296)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of plant and equipment		40,194	-
Purchase of plant and equipment		(42,690)	(13,956)
Purchase of intangible assets		-	(67,668)
Conversion of short-term bank deposits to cash		108,524	-
Payment for short term bank deposits		-	(23,272)
Net cash provided by/(used in) investing activities		106,028	(104,896)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from the issue of shares		14,487	10,464,234
Repayment of borrowings		(54,681)	(20,950)
Principal elements of lease payments		(177,940)	(168,182)
Shareholder refunds		(33,935)	-
Proceeds collected from the sale of Non-Eligible Foreign Shareholders' Entitlements		-	33,117
Net cash (used in)/provided by financing activities		(252,069)	10,308,219
Net (decrease)/increase in cash and cash equivalents		(6,069,731)	6,975,027
Cash and cash equivalents at the beginning of the financial year		7,924,309	933,517
Foreign exchange		135,479	15,765
Cash and cash equivalents at the end of the financial year	8a	1,990,057	7,924,309

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

These consolidated financial statements cover Elsieht Limited (**Company**) and its controlled entities as a consolidated entity (also referred to as **Group**). Elsieht 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 28 March 2022 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation of the financial report****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 Elsieht 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 Basis

The financial statements are prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. For the year ended 31 December 2021, the Group recorded a net loss of US\$6,043,694 (2020: US\$3,880,688), net cash outflows from operating activities of US\$5,923,690 (2020: US\$3,228,296) and had net working capital of US\$2,403,409 (2020: US\$8,132,701).

The Directors have approved a detailed cash flow forecast, which indicates that the entity will be required to raise additional funds in order to provide additional working capital and to continue to fund the proposed level of business activities. The ability of the Group to continue as a going concern is dependent on securing such additional funding by capital raise or other means.

This condition indicates a material uncertainty that may cast a significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management believes that there are sufficient funds to meet the entity's working capital requirements as at the date of this report. The financial statements have been prepared on a going concern basis as the Directors expect the Group to be successful in securing additional funds through debt or equity issues, as and when required.

It is the Directors' intention to raise additional equity funding within the next six months to enable the smooth and continuing progression of the Group's current and planned commercial activities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**c) Going Concern Basis (continued)**

The continuing viability of the Group and its ability to continue as a going concern and meet its debt and commitments as they fall due are dependent on this funding, together with maintaining already implemented cost contained and deferment strategies as well as being successful in continuing to roll out its various commercial initiatives.

COVID-19 – Current Period Impact

The COVID-19 outbreak was declared a pandemic by the 'World Health Organization' in March 2020. The outbreak and the response of Governments in dealing with the pandemic is impacting the general activity levels within the community, the economy and to an extent the operations of Elsie's business. For the period to (and at) 31 December 2021 there has been no significant impact on operations, cash flow and financial condition. The Group's operations continue to run well.

In 2020/2021 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 sales in 2022.

Future Impact and Going Concern

It is not possible to precisely estimate the impact of the outbreak's near-term and longer effects on the Group or of Governments' varying efforts to combat the outbreak and support businesses globally. 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\$1,990,057 at 31 December 2021;
- the Group has on issue 16,728,000 options exercisable at \$0.20 on or before 2 June 2022, which, if exercised will increase the Group's cash balance by approximately \$3,300,000;
- 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.

d) 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 2021. 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.

e) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2021. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**e) Principles of Consolidation (continued)**

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.

f) Revenue from Contracts with Customers

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.

g) 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 as 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**g) Income Tax (continued)**

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.

h) 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.

i) Impairment of non-financial assets

At the end of each reporting period, the Directors assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits.

If any such indication exists, an impairment test is carried out on the asset by comparing the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**i) Impairment of non-financial assets (continued)**

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks with original maturity of three months or less.

k) Trade 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.

l) 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.

m) Operating expenses

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

n) 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 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**o) 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.

p) Employee Benefits**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 simulation model.

q) 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.

r) 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.

s) Equity and reserves

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. The option reserve records the value of share-based payments.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**t) 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 USA 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.

u) 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.

v) 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 pricing model. The number of shares and 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.

w) Earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to members of the parent entity, 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 year (if any).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**w) Earnings per share (continued)**

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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

x) 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.

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.

y) Leases

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.

z) 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.

aa) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**aa) Critical Accounting Estimates and Judgements (continued)****Key Estimates and judgements*****Coronavirus (COVID-19) pandemic***

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic. At 31 December 2021 the Group has reassessed all significant judgements and estimates included in the 31 December 2021 financial result and position, including but not limited to, provisions against debtors, net realizable value of inventory, liability to future claims, impairment of non-current assets, and other provisions and estimates.

Share based payments

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 18.

Trade receivables

Management assesses 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 9.

	2021	2020
	US\$	US\$
NOTE 2: REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue recognised at a point in time:		
- Sale of physical goods	452,468	1,399,452
Revenue recognised over a period of time:		
- Service level agreements and other services	121,546	325,757
Total revenue	574,014	1,725,209

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

- Contract liabilities	39,825	52,007
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There were no significant movements in contract assets or liabilities during the year.

	2021	2020
	US\$	US\$
NOTE 3: EXPENSES		
Loss before income tax from continuing operations includes the following specific expenses:		
Selling, general and administrative expenses:		
- Research	1,703,093	1,212,678
- Sales, marketing and exhibitions	1,068,912	845,995
- Bad debts	725,190	2,430
- Salaries and related expenses	516,773	655,147
- Professional services	425,843	419,196
- Office related expenses	245,341	167,171
- Amortisation of right of use lease asset	184,347	162,341
- Depreciation of plant and equipment and amortisation of intangible assets	120,069	126,712
- Travel	51,953	30,535
- Exchange rate differences	85,971	20,844
- Others	252,494	327,600
Total selling, general and administrative expenses	5,379,986	3,970,649
Net finance expenses:		
- Interest income	(11,790)	-
- Interest on borrowings and bank fees	770	7,652
- Implied interest on leases	10,635	2,625
Total net finance (income)/expenses	(385)	10,277

NOTE 4: INCOME TAX

The financial accounts for the year ended 31 December 2021 comprise the results of ElSight Australia and El-Sight Israel. The legal parent is incorporated and domiciled in Australia where the applicable tax rate is 30% (2020: 30%). The applicable tax rate in Israel is 23% (2020: 23%).

	2021	2020
	US\$	US\$
(a) Income tax expense	-	-
Current tax	-	-
Deferred tax	-	-
(b) The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Income tax benefit on operating loss at 27.03% (2020: 27.02%)	(1,633,610)	(1,048,480)
<i>Non-deductible items</i>		
Non-deductible expenditure	140,617	255,306
Deferred tax assets not recognised	1,492,993	793,174
Income tax attributable to operating income/(loss)	-	-
Utilisation of tax losses	-	-
Income tax expense	-	-
Deferred tax assets		
Investments	4,878,473	3,116,510
Accruals	5,443	3,313
Provisions	48,873	62,372
Tax losses	3,166,014	2,226,565
Deferred tax asset	8,098,803	5,408,760
Less deferred tax assets not recognised	(8,098,803)	(5,408,760)
Net deferred tax assets	-	-
Deferred tax liabilities		
Other	-	-
Net deferred tax liabilities	-	-
Deferred tax assets not brought to account		
Temporary differences	4,932,789	3,182,196
Operating tax losses	3,166,014	2,226,564
Capital loss	-	-
Unused tax losses for which no deferred tax asset has been recognised	8,098,803	5,408,760

Carry forward losses

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 31 December 2021 because the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

NOTE 5: RELATED PARTY TRANSACTIONS
a) Key Management Personnel Compensation

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

	2021	2020
	US\$	US\$
Short-term salary and fees	558,182	753,532
Retirement benefits	56,334	103,673
Non-monetary benefits	25,347	35,949
Termination benefits	-	183,407
Other	41,351	57,813
Share based payments	29,957	157,576
Total KMP Compensation	711,171	1,291,950

b) Other related party transactions

On termination Mr Gabay purchased the vehicle that had been provided as part of his remuneration package. Mr Gabay paid the Group ILS 131,250 (US\$40,194) for the vehicle which had a carrying value of ILS 168,722 (US\$51,670).

Key management personnel or their related party	Nature of transactions	Transaction value		Payable balance	
		2021	2020	2021	2020
		US\$	US\$	US\$	US\$
Ami Shafran	Director and consulting fees included within trade and other payables	-	-	3,023	33,333
David Furstenberg	Director and consulting fees included within trade and other payables	-	-	3,023	33,333
Howard Digby	Director fees included within trade and other payables	-	-	-	3,511
Nir Gabay	2020: Termination benefits, Post-employment retirement benefits, Company bank loan settled by Nir on behalf of the Company	(i)	-	(i)	261,117
Susana Gabay (related party of Nir Gabay)	Salary and salary related expenses	(i)	116,186	(i)	3,068
Eden Gabay (related party of Nir Gabay)	Professional services	(i)	2,294	(i)	-
Dipio (related party of Roee Kashi) (2020: related party of Roee Kashi and Nir Gabay)	Revenue earned	-	87,148	-	-
Yoav Amitai	Salary and salary related expenses	-	-	9,763	14,499
Roee Kashi	Salary and salary related expenses	-	-	8,307	7,006

(i) These entities are not a related party of the Group at 31 December 2021 following Mr Nir Gabay's resignation on 31 October 2020.

NOTE 5: RELATED PARTY TRANSACTIONS (CONTINUED)

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

At 31 December 2020 there was an amount owing to former Managing Director Mr Nir Gabay of ILS 147,888 (US\$46,000) in relation to Group bank borrowings paid by Mr Gabay. The amount was repaid to Mr Gabay in January 2021. No interest was recorded or incurred in respect of the transaction.

At 31 December 2020 there was an amount owing to Mr Gabay of ILS 631,359 (US\$183,407) in relation to his termination payment. The amount owing was paid during Q1 2021.

NOTE 6: 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:

	2021 US\$	2020 US\$
Auditor remuneration		
- Auditing and reviewing the financial reports (BDO) – Australia	31,555	28,039
- Auditing and reviewing the financial reports (BDO) – Israel	22,500	18,000
	<u>54,055</u>	<u>46,039</u>

NOTE 7: EARNINGS/(LOSS) PER SHARE

	2021 US\$	2020 US\$
Earnings/ (Loss) per share (EPS)		
a) Loss used in calculation of basic EPS and diluted EPS	<u>(6,043,694)</u>	<u>(3,880,688)</u>
b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share	133,373,831	107,315,722

NOTE 8a : CASH AND CASH EQUIVALENTS

	2021 US\$	2020 US\$
Cash at bank – unrestricted	1,845,217	7,924,309
Cash at bank – restricted ⁽ⁱ⁾	144,840	-
Total cash and cash equivalents in the consolidated statement of cash flows	<u>1,990,057</u>	<u>7,924,309</u>

(i) 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 20.

NOTE 8b : CASH FLOW INFORMATION

	2021 US\$	2020 US\$
Loss after income tax	(6,043,694)	(3,880,688)
Non-cash flows in loss after income tax		
Share based payments	280,569	397,793
Amortisation of right of use lease asset	184,347	162,341
Depreciation of plant and equipment and amortisation of intangible assets	120,069	126,712
Loss on disposal of plant and equipment	11,601	-

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

NOTE 8b : CASH FLOW INFORMATION

	2021	2020
	US\$	US\$
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	577,954	(382,214)
Increase in inventory	(427,177)	(117,955)
Decrease in supplier advances	-	107,812
(Decrease)/increase in trade and other payables	(537,537)	364,445
Increase in provisions	(89,822)	(6,542)
Cash flows used in operating activities	(5,923,690)	(3,228,296)

Non-Cash investing and financing activities

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

During the year ended 31 December 2020 Mr Nir Gabay personally repaid ILS 147,888 (US\$46,000) of the Group's bank borrowings. The Group has a liability recorded to Mr Gabay in relation to the same at 31 December 2020.

NOTE 9: TRADE AND OTHER RECEIVABLES

	2021	2020
	US\$	US\$
CURRENT		
Trade and other receivables	243,134	885,732
Loss allowance	(32,031)	(12,611)
Short term deposits	51,183	110,225
Prepaid expenses	90,820	65,219
	353,106	1,048,565

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 20.

NOTE 10: INVENTORY

	2021	2020
	US\$	US\$
Inventory at cost	853,338	396,272
	853,338	396,272

In 2020/2021 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 sales in 2022.

The annual expense on write downs of inventory to net realisable value amounted to US\$73,002 (2020: US\$41,017).

NOTE 11: PLANT AND EQUIPMENT

	2021	2020
	US\$	US\$
Cost	497,029	551,374
Accumulated depreciation	(294,431)	(296,167)
Net carrying amount	202,598	255,207

NOTE 11: PLANT AND EQUIPMENT (CONTINUED)

	Computers	Motor vehicles	Office furniture and equipment	Installations and leasehold improvements	Total
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2020	30,113	95,176	55,649	111,239	292,177
Additions	4,509	-	8,579	868	13,956
Disposals ⁽ⁱⁱ⁾	-	-	-	-	-
Depreciation expense	(26,033)	(25,837)	(7,445)	(14,960)	(74,275)
Foreign currency translation adjustments	3,035	7,134	4,778	8,402	23,349
Balance at 31 December 2020	11,624	76,473	61,561	105,549	255,207
Additions	18,300	-	12,224	11,641	42,165
Disposals	-	(52,233)	-	-	(52,233)
Depreciation expense	(13,335)	(8,850)	(12,863)	(16,263)	(51,311)
Foreign currency translation adjustments	1,642	564	2,551	4,013	8,770
Balance at 31 December 2021	18,232	15,954	63,472	104,940	202,598

(ii) Plant and equipment with a cost value of US\$85,500 was disposed during the year ended 31 December 2020. The net carrying value of the disposed plant and equipment was nil.

NOTE 12: RIGHT OF USE ASSETS

	2021	2020
	US\$	US\$
Office space at cost	296,203	-
Less: accumulated amortisation	(98,548)	-
Motor vehicles	229,198	-
Less: accumulated amortisation	(92,924)	-
	<u>333,929</u>	<u>-</u>

The right of use assets recognised at 31 December 2021 relate to new motor vehicle leases entered into during the year and a new agreement entered into in relation to the existing 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.

NOTE 12: RIGHT OF USE ASSETS (CONTINUED)

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.

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.

NOTE 13: TRADE AND OTHER PAYABLES

	2021	2020
	US\$	US\$
CURRENT		
Trade payables	86,718	320,911
Other payables and accrued expenses	450,462	854,756
Contract liability	39,825	52,007
	577,005	1,227,674

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 20.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: LEASE LIABILITIES

	2021	2020
	US\$	US\$
Current	216,087	-
Non-current	124,498	-
	<u>340,585</u>	<u>-</u>

The lease liabilities recognised at 31 December 2021 relate to office lease and motor vehicle leases entered into during the year. 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%.

NOTE 15: PROVISIONS

	2021	2020
	US\$	US\$
NON-CURRENT		
Accrued severance pay	99,310	140,927
Severance pay fund	(20,883)	(23,474)
	<u>78,427</u>	<u>117,453</u>
Opening net carrying amount	117,453	109,263
Decrease in provision	(41,617)	-
Severance pay fund utilised	2,591	-
Foreign currency translation adjustments	-	8,190
Closing net carrying amount	<u>78,427</u>	<u>117,453</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: ISSUED CAPITAL

		2021	2020
		US\$	US\$

(a) Share Capital

133,470,748 (31 December 2020: 133,341,582) fully paid ordinary shares	16b	21,375,191	21,361,856
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(b) Movement in Ordinary Capital

	Date	No.	Unit Price US\$	Total US\$
Opening balance 1 January 2020		96,242,599		11,739,495
Issue of placement shares	14-Jan-20	9,000,000	0.22	1,987,145
Issue of shares on conversion of options	6-May-20	46,000	0.20	9,013
Issue of shares on conversion of options	8-May-20	200,000	0.19	38,541
Issue of shares on conversion of options	13-May-20	500,000	0.20	97,602
Issue of shares on conversion of options	2-Jun-20	1,028,000	0.20	205,150
Issue of shares on conversion of options	13-Nov-20	1,880,000	0.14	272,508
Issue of rights issue and follow-on placement shares	15-Dec-20	24,444,983	0.34	8,333,610
Costs of capital raising		-		(1,321,208)
Closing balance at 31 December 2020		133,341,582		21,361,856
Issue of shares on conversion of options	1-Sep-21	50,000	0.20	10,241
Issue of shares on conversion of options	5-Oct-21	50,000	0.20	10,187
Issue of shares on conversion of options	14-Nov-21	29,166	0.21	5,984
Costs of capital raising		-		(13,077)
Closing balance at 31 December 2021		133,470,748		21,375,191

(c) 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.

NOTE 17: RESERVES

	2021	2020
	US\$	US\$
Reserves	2,590,315	2,247,015

	Ref	2021	2020
		US\$	US\$
a) Share Based Payment Reserve			
46,571,819 (31 December 2020: 43,885,013) options on issue		3,384,301	3,190,227
		3,384,301	3,190,227

NOTE 17: RESERVES (CONTINUED)

b) Movement in Share Based Payment Reserve	No.	US\$
Opening balance at 1 January 2020	47,219,360	2,609,474
Expense of options issued in prior periods, prior to cancellations	-	146,606
Issue of ESOP options	1,450,000	166,049
Issue of ESOP options	200,000	37,148
Issue of ESOP options	150,000	20,991
Issue of ESOP options	100,000	12,779
Issue of ESOP director related party options	100,000	14,315
Issue of ESOP options	75,000	5,512
Issue of ESOP options	100,000	2,757
Issue of lead manager/underwriter options	11,000,245	842,828
Issue of free attaching rights issue and follow-on placement options	12,222,408	-
Options exercised and converted to fully paid ordinary shares (Note 16)	(3,654,000)	(319,128)
Expiry of options	(4,872,000)	(340,738)
Options cancelled on termination of employment	(206,000)	(8,366)
Options cancelled after vesting conditions not met	(20,000,000)	-
Closing balance at 31 December 2020	43,885,013	3,190,227
Expense of options issued in prior periods, prior to cancellations	-	151,934
Issue of ESOP options (Note 18)	210,000	14,577
Issue of ESOP options (Note 18)	180,000	15,991
Issue of ESOP options (Note 18)	100,000	7,834
Issue of ESOP options (Note 18)	1,045,000	31,520
Issue of ESOP options (Note 18)	2,590,000	95,101
Issue of ESOP options (Note 18)	250,000	1,233
Issue of ESOP options (Note 18)	200,000	950
Options exercised and converted to fully paid ordinary shares (Note 16)	(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

Share based payment options on issue at 31 December 2021 have a weighted average exercise price of AUD\$0.58 (2020: AUD\$0.59) and a weighted average remaining contractual life of 1.31 years (2020: 2.01 years).

	2021	2020
c) Foreign Exchange Reserve	US\$	US\$
	(497,190)	(646,416)

The foreign currency translation reserve records exchange differences arising on translation from functional currency to presentation currency.

	2021	2020
d) Predecessor Accounting Reserve	US\$	US\$
	(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.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: SHARE BASED PAYMENTS

Options Issued in Prior Periods

Options issued in prior periods that impact the year ended 31 December 2021 are as follows:

Description	Grant date	Exercise price	Expiry date	Options on issue at 31 Dec 2021	Vesting condition	Net pro-rata income/(expense) recorded at 31 Dec 2021
		A\$		No.		US\$
ESOP Options	2-Jun-17	\$0.20	2-June-22	8,608,000	(i)	(8,333)
ESOP Options	10-Dec-17	\$0.60	9-Oct-22	89,000	(ii)	(2,726)
ESOP Options	9-Jan-18	\$1.08	14-Nov-22	25,000	(iii)	(315)
ESOP Options	26-Apr-18	\$0.745	4-Mar-23	12,000	(iv)	(179)
Director Options	28-May-18	\$0.60	9-Oct-22	460,000	(v)	(12,546)
ESOP Options	1-Aug-18	\$0.675	31-Jul-23	102,000	(vi)	1,237
ESOP Options	24-Jun-19	\$0.35	23-Jun-24	115,000	(vii)	(2,354)
ESOP Options	10-May-20	\$0.28	23-Apr-25	1,004,166	(viii)	(53,827)
ESOP Options	10-May-20	\$0.28	23-Apr-25	200,000	(ix)	(6,804)
ESOP Options	19-May-20	\$0.34	15-May-25	150,000	(x)	(4,763)
ESOP Options	18-Jun-20	\$0.32	12-Jun-25	100,000	(xi)	(3,703)
ESOP Options	30-Jul-20	\$0.28	23-Apr-25	100,000	(xii)	(8,911)
ESOP Options	9-Aug-20	\$0.30	27-Jul-25	75,000	(xiii)	(12,898)
ESOP Options	26-Oct-20	\$0.54	13-Oct-25	-	(xiv)	2,759
Total				11,040,166		(113,363)

- (i) Options became fully vested as of 2 June 2021.
- (ii) Options became fully vested as of 10 October 2021.
- (iii) Options became fully vested as of 15 November 2021.
- (iv) 50% on 5 March 2020 and an additional 6.25% at the end of each quarter of continuous service thereafter.
- (v) 50% on 10 October 2020 and an additional 6.25% at the end of each quarter of continuous service thereafter.
- (vi) 50% on 1 August 2020 and additional 6.25% at the end of each quarter of continuous service thereafter.
- (vii) 50% on 24 June 2021 and an additional 6.25% at the end of each quarter of continuous service thereafter.
- (viii) 50% on 23 April 2021 and an additional 4.17% at the end of each quarter of continuous service thereafter.
- (ix) Options became fully vested as of 23 April 2021.
- (x) Options became fully vested as of 15 May 2021.
- (xi) Options became fully vested as of 13 June 2021.
- (xii) 50% on 23 April 2021 and an additional 4.17% at the end of each quarter of continuous service thereafter.
- (xiii) 50% on 28 July 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter.
- (xiv) Options cancelled on termination of employment during the year ended 31 December 2021.

Share Based Payments Issued During the Year Ended 31 December 2021

During the year ended 31 December 2021 the Group recorded the following share based payments:

- The issue of 210,000 Employee Share Plan Options exercisable at A\$0.43, on or before 1 February 2026 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 50% on 2 February 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$14,577 recorded at 31 December 2021.
- The issue of 180,000 Employee Share Plan Options exercisable at A\$0.52, on or before 9 March 2026 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 50% on 10 March 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$15,991 recorded at 31 December 2021.
- The issue of 100,000 Employee Share Plan Options exercisable at A\$0.50, on or before 13 April 2026 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 50% on 14 April 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$7,834 recorded at 31 December 2021.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: SHARE BASED PAYMENTS (CONTINUED)

- The issue of 1,045,000 Employee Share Plan Options exercisable at A\$0.42, on or before 14 September 2026 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 15 September 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$31,520 recorded at 31 December 2021.
- The issue of 2,590,000 Employee Share Plan Options exercisable at A\$0.48, on or before 14 September 2026 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 15 September 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$95,101 recorded at 31 December 2021.
- The issue of 250,000 Employee Share Plan Options exercisable at A\$0.38, on or before 14 December 2026 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 15 December 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$1,233 recorded at 31 December 2021.
- The issue of 200,000 Employee Share Plan Options exercisable at A\$0.44, on or before 14 December 2026 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 15 December 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter, resulting in an expense of US\$950 recorded at 31 December 2021.

Fair Value

The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued. The Black Scholes inputs and valuations were as follows:

Options	ESOP Options	ESOP Options	ESOP Options	ESOP Options	ESOP Options	ESOP Options	ESOP Options
Number of options	210,000	180,000	100,000	1,045,000	2,590,000	250,000	200,000
Grant date	2-Feb-21	10-Mar-21	14-Apr-21	15-Sep-21	15-Sep-21	15-Dec-21	15-Dec-21
Issue date	8-Feb-21	12-Mar-21	20-Apr-21	15-Sep-21	15-Sep-21	15-Dec-21	15-Dec-21
Exercise price A\$	\$0.43	\$0.52	\$0.50	\$0.42	\$0.48	\$0.38	\$0.44
Expected volatility	100%	100%	100%	100%	100%	100%	100%
Implied option life	4.98 years	4.99 years	4.98 years	5.00 years	5.00 years	5.00 years	5.00 years
Expected dividend yield	Nil	nil	nil	nil	nil	nil	nil
Risk free rate	1.00%	1.00%	1.00%	1.96%	1.96%	1.96%	1.96%
Valuation per option A\$	\$0.32	\$0.35	\$0.35	\$0.34	\$0.34	\$0.27	\$0.26
Exchange rate	\$0.75	\$0.75	\$0.75	\$0.73	\$0.73	\$0.73	\$0.73
Valuation per option US\$	\$0.24	\$0.26	\$0.26	\$0.25	\$0.25	\$0.20	\$0.19
Total valuation US\$	\$50,400	\$46,800	\$26,000	\$261,250	\$647,500	\$50,000	\$38,000

Share Based Payments Expense

Share based payment expense is comprised as follows:

	2021	2020
	US\$	US\$
Total net expense recognised in profit or loss	280,569	397,793
Total expense recognised in equity	-	842,828
Total net share based payments expense	280,569	1,240,621

NOTE 19: 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.

NOTE 20: 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	2021 US\$	2020 US\$
Cash and cash equivalents – A+ Rated	8a	425,645	6,090,443
Cash and cash equivalents – A Rated	8a	1,564,412	1,833,866
Trade and other receivables – no rating	9	353,106	1,048,565

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.

NOTE 20: FINANCIAL INSTRUMENTS (CONTINUED)

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

	2021	2020
	US\$	US\$
Impairment losses		
- individually impaired receivables	725,190	2,430
- movement in provision for impairment	19,420	2,430

As at 31 December 2021, trade receivables of US\$14,600 (2020 – US\$206,045) 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:

	2021	2020
	US\$	US\$
Up to 3 months	6,424	201,918
3 to 6 months	1,333	3,843
Over 6 months	6,843	284
	<u>14,600</u>	<u>206,045</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:

2021	Interest rate	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying amount
		US\$	US\$	US\$	US\$	US\$	US\$	US\$
<i>Financial liabilities at amortised cost</i>								
Trade and other payables	-	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>
2020	Interest rate	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying amount
		US\$	US\$	US\$	US\$	US\$	US\$	US\$
<i>Financial liabilities at amortised cost</i>								
Trade and other payables	-	1,227,674	-	-	-	-	1,227,674	1,227,674
Borrowings	2.1%	4,487	4,488	781	-	-	9,756	9,539
		<u>1,232,161</u>	<u>4,488</u>	<u>781</u>	<u>-</u>	<u>-</u>	<u>1,237,430</u>	<u>1,237,213</u>

NOTE 20: 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 Dollars 2021 US\$	United States Dollars 2020 US\$
Cash and cash equivalents	1,418,449	44,250
Trade and other receivables	182,263	726,404
Trade and other payables	(13,623)	(89,577)
Net exposure	1,587,089	681,077

NOTE 21: PARENT ENTITY FINANCIAL INFORMATION

The following information of the legal parent Elsieht Limited has been prepared in accordance with Australian Accounting Standards and the accounting policies as outlined in Note 1.

(a) Financial Position of Elsieht Limited

	2021 US\$	2020 US\$
ASSETS		
Current assets	494,167	6,183,119
Non-current assets	2,384,640	2,412,556
TOTAL ASSETS	2,878,807	8,595,675
LIABILITIES		
Current liabilities	46,542	183,846
Non-current liabilities	-	-
TOTAL LIABILITIES	46,542	183,846
NET ASSETS	2,832,265	8,411,829
SHAREHOLDERS' EQUITY		
Issued capital	21,369,042	21,355,707
Reserves	2,301,549	2,440,110
Accumulated Losses	(20,838,326)	(15,383,988)
SHAREHOLDERS' EQUITY	2,832,265	8,411,829

(b) Statement of profit or loss and other comprehensive income

Loss for the year	(5,540,834)	(3,968,717)
Other comprehensive income/(loss)	(332,631)	112,265
Total comprehensive loss	(5,873,465)	(3,856,452)

(c) Guarantees entered into by Elsieht Limited for the debts of its subsidiary

There are no guarantees entered into by Elsieht Limited.

NOTE 21: PARENT ENTITY FINANCIAL INFORMATION (CONTINUED)
(d) Contingent liabilities of Elsieht Limited

There were no contingent liabilities as at 31 December 2021 (2020: Nil).

(e) Commitments by Elsieht Limited

There were no commitments as at 31 December 2021 (2020: Nil).

NOTE 22: CONTROLLED ENTITIES

The ultimate legal parent entity of the Group is Elsieht Limited, incorporated and domiciled in Australia. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 1.

Controlled entity	Country of Incorporation	Percentage Owned	
		2021	2020
El-Sight Ltd	Israel	100%	100%

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

NOTE 23: COMMITMENTS

The Group has no commitments which are not recorded on the statement of financial position as at 31 December 2021.

NOTE 24: CONTINGENT LIABILITIES

The Group has no known contingent liabilities as at 31 December 2021.

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

On 13 January 2022 the Group announced that its “Halo” bonded connectivity solution has 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. The “Halo” technology will provide DroneUp and Walmart with a robust connection solution to complete the end-to-end link between the drone, with all communication technologies, DroneUp field drone hub and DroneUp control-centre.

DroneUp has placed the first commercial order of Elsieht’s “Halo” to support their initial fleet of drones (this order is equivalent to ~80% of 1H 2021 revenues for Elsieht). The order of “Halo” units combined with monthly recurring Elsieht cloud and SIM card services has been received by DroneUp for deployment.

Importantly, Walmart announced a large strategic investment in DroneUp in June 2021. As Walmart roll out their services, others are expected to follow and the Group is well-positioned to grow organically with them. This order with DroneUp affirms the validity of Elsieht’s ‘design win’ strategy within the drone industry and is a great indicator at the potential of the Company’s suite of connectivity solutions and ability to be a solutions provider when businesses need uncompromised connection confidence.

Other than what has already been stated within this Report, there have been no other matters or circumstances that have arisen since the end of the period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the Group in subsequent financial periods.

NOTE 26: 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 2021 which are expected to have a material impact on the Group in future reporting periods.

DIRECTORS' DECLARATION

In the Director's opinion:

1. The consolidated financial statements and notes set out on pages 20 to 48 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 (a);
 - b) giving a true and fair view, the consolidated entity's financial position as at 31 December 2021 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 2021.

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

28 March 2022

INDEPENDENT AUDITOR'S REPORT

To the members of Elsieht Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Elsieht Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, 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 2021 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.

Material uncertainty related to going concern

We draw attention to Note 1(c) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for Share-based payments

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
During the year ended 31 December 2021, the Group issued options to employees and financial consultants which have been accounted for as share-based payments. Refer to notes 1(v) and 18 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 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 1(v) and 18 of the financial report.

Revenue Recognition

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
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 1(f), and Note 2 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 2021, 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 12 to 18 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Elsie Limited, for the year ended 31 December 2021, 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



Ashleigh Woodley

Director

Perth, 28 March 2022

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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 2021.

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 at <https://elsight.com/>

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;

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- 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 Elsight. The Chief Executive Officer is responsible for the day-to-day operations, financial performance and administration of Elsight 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 Elsight 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 | 15% |
| • Women in senior management positions | 0% |
| • Women on the Board | 0% |

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

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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 reviewed the mix of the Board leading to the appointment of a new Director in early 2021 and intends to undertake a performance review during the first half of 2022.

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 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 Howard Digby	Non-Executive Director	13 December 2016	Yes
Mr David Furstenberg	Executive Director	2 June 2017	Yes
Mr Joshua (Jim) Landau	Non-Executive Director	1 October 2021	Yes
Mr Raj Logaraj	Non-Executive Director	1 August 2018, resigned 7 January 2021	Yes
Mr Peter Marks	Non-Executive Director	9 January 2021, resigned 1 October 2021	Yes

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

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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 has established a Board Skills Matrix. The Board Skills Matrix includes the following areas of knowledge and expertise:

- strategic expertise;
- specific industry knowledge;
- accounting and finance;
- risk management;
- experience with financial markets; and
- investor 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: Act 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, he or she must report that breach to the Company Secretary, or in their absence, the Chairman. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach under the terms of the Company's Whistleblower Policy. All reports will be acted upon and kept confidential.

Principle 4: Safeguard integrity in corporate reporting

The Board as a whole fulfills 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

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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.

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 Elsie'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

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- making it easy for shareholders to participate in general meetings of the Company.

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 “Investors relations” page of the Company’s website.

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.

The Board reviews the Company’s risk management framework at least annually to ensure that it continues to effectively manage risk.

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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.

The maximum aggregate remuneration for Non-Executive Directors is \$300,000 per annum as disclosed within the Company's constitution. The Directors set the individual Non-Executive Directors fees within the limit approved by shareholders.

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.

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 18 March 2022.

As at 18 March 2022 there were 133,524,914 ordinary fully paid shares held by 946 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	28,458,710	21.31%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	14,726,462	11.03%
JB TORO PTY LTD	10,779,827	8.07%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	10,148,555	7.60%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	7,681,800	5.75%
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	5,730,669	4.29%
RIGI INVESTMENTS PTY LIMITED <THE CAPE A/C>	3,790,811	2.84%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,760,389	2.07%
THE LF POINT PTY LTD <POINT A/C>	2,270,000	1.70%
NATIONAL NOMINEES LIMITED	2,256,172	1.69%
TENBAGGA RESOURCES PTY LTD <TENBAGGA FAMILY A/C>	2,083,360	1.56%
BNP PARIBAS NOMS PTY LTD <DRP>	1,965,073	1.47%
MR NIR GABAY	1,923,500	1.44%
MR JASON FRANCO BATTISTESSA	1,879,000	1.41%
LAMMA NOMINEES PTY LTD	1,750,000	1.31%
GLENEAGLE ASSET MANAGEMENT LIMITED <GLENEAGLE INVESTMENTFUND A/C>	1,180,000	0.88%
ALBION HAWTHORN PTY LTD <TIM PEARS FAMILY A/C>	1,088,884	0.82%
SPINITE PTY LTD	1,030,000	0.77%
MR JASON FRANCO BATTISTESSA <AXEL BATTISTESSA-LEE A/C>	1,008,762	0.76%
MR JASON FRANCO BATTISTESSA <MAGNUS BATTISTESSA-LEE A/C>	1,008,150	0.76%
Totals: Top 20 holders of Issued Capital	103,520,124	77.53%

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Total Remaining Holders Balance	30,004,790	22.47%
Totals	133,524,914	100.00%

SUBSTANTIAL HOLDERS

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 18 March 2022 are:

Name	No of Shares Held	% of Issued Share Capital
CITICORP NOMINEES PTY LIMITED	28,458,710	21.31%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	14,726,462	11.03%
JB TORO PTY LTD	10,779,827	8.07%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	10,148,555	7.60%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	7,681,800	5.75%

DISTRIBUTION OF EQUITY SECURITIES

The distribution of issued quoted equity securities as at 18 March 2022 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	128	63,553	124	57,584
1,001 - 5,000	262	700,292	105	270,975
5,001 - 10,000	144	1,138,181	36	263,314
10,001 - 100,000	331	10,857,629	72	2,471,457
100,001 - and over	81	120,765,259	28	20,159,323
Totals	946	1,115	365	23,222,653

There were 131 holders with unmarketable parcels totalling 65,596 shares based on the share price as at close of business on 18 March 2022.

RESTRICTED SECURITIES

As at 18 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>	6,991,122	30.10%
2	BNP PARIBAS NOMS PTY LTD <DRP>	2,778,566	11.96%
3	TENBAGGA RESOURCES PTY LTD <TENBAGGA FAMILY A/C>	2,387,932	10.28%
4	CITICORP NOMINEES PTY LIMITED	1,450,644	6.25%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,404,363	6.05%

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6	MR JOHANNES HENDRIKUS TULLENERS	711,920	3.07%
7	MR PAUL HENRI VERON & MRS JULIE ANNE VERON <DEAD KNICK S/F A/C>	488,529	2.10%
8	MR DANIEL FREDRICK CONRICK	400,000	1.72%
8	SCINTILLA STRATEGIC INVESTMENTS LIMITED	400,000	1.72%
9	MR MARK DOUGLAS KEMPE	300,000	1.29%
10	ROOKHARP CAPITAL PTY LIMITED	298,889	1.29%
11	TDF PROPERTIES PTY LTD <THE TDF PROPERTY A/C>	250,000	1.08%
12	CHALLENGE AURORA PTY LTD	245,000	1.06%
13	SILVERWOOD CORPORATION PTY LTD <SUPER FUND ACCOUNT>	200,000	0.86%
13	DR DAVID JAMES WALLAND	200,000	0.86%
14	MR JEFFREY JOHN HUNT	157,752	0.68%
15	MR IAN JAMES ARATHOON <IAN ARATHOON FAMILY A/C>	150,000	0.65%
16	MR DANIEL FREDRICK CONRICK & MRS SANDRA CONRICK <CONRICK 2 S/F A/C>	130,000	0.56%
17	MRS SOPHIE MARIE HAGE	129,809	0.56%
18	MRS ZI JUAN QI <CHEN FAMILY A/C>	128,333	0.55%
18	MRS YAN WANG <AUST WEST COAST TRAVEL A/C>	128,333	0.55%
19	MR RYAN JAMES ROWE	128,111	0.55%
20	LAMMA NOMINEES PTY LTD	125,000	0.54%
20	NATIONAL NOMINEES LIMITED	125,000	0.54%
20	SIMS INVESTMENTS PTY LTD <SWISS SUPERANNUATION FUND>	125,000	0.54%
	Total	19,834,303	85.41%
	Total issued capital - selected security class	23,222,653	100.00%

UNQUOTED SECURITIES

As at 18 March 2022, the following unquoted securities are on issue:

Security Code	Security Name	Total Holders	Total Holdings
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
ELSEO5	EMP OPTS @ \$0.52 EXP 09/03/2026	1	180,000
ELSEO6	EMP OPTS EXPIRING 13 APRIL 2026 @ \$0.50	1	100,000
ELSOPT02	EMP OPTIONS EXP 02/06/22 @ \$0.20	1	8,608,000
ELSOPT03	EMPLOYEE OPS EXP 9/10/2022 @ \$0.60	5	89,000
ELSOPT04	OPTS EXPIRING 14 NOVEMBER 2022 @ \$1.08	1	25,000
ELSOPT06	OPTIONS EXPIRING 31 JULY 2023 @ \$0.675	6	102,000
ELSOPT07	OPTIONS EXPIRING 31 JULY 2023 @ \$0.60	2	200,000

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ELSOPT08	OPTIONS EXPIRING 9 OCTOBER 2022 @ \$0.60	4	460,000
ELSOPT09	OPTIONS EXPIRING 1 DECEMBER 2023 @ \$0.60	1	50,000
ELSOPT10	OPTIONS EXPIRING 23 JUNE 24 @ \$0.35	2	115,000
ELSOPT12	OPTIONS EXPIRING 23 APRIL 2025 @ \$0.28	14	1,250,000
ELSOPT13	OPTIONS EXPIRING 15 MAY 2025 @ \$0.34	3	150,000
ELSOPT14	OPTIONS EXPIRING 12 JUNE 2025 @ \$0.32	1	100,000
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	11	759,000
ELSOPT20	UNLISTED OPTIONS EXP 14/09/2026 @ \$0.48	5	2,290,000
ELSPO1	PERF OPTS EXP 5YRS	1	7,985,000
ELSPO2	PERF OPTS @ \$0.20 EX 5YRS 02/06/17	1	135,000
TOTAL		68	23,295,000

ON-MARKET BUY BACK

There is currently no on-market buyback program.