

December 2023 Q4 Quarterly Report & Business Update

Key Highlights:

- Elsight enjoyed an increasing demand and several new use cases in the military and defense sectors, contributing to better-than-expected revenue during the quarter.
- This Q4/23 revenue is almost the same as the combined revenues of the two previous quarters (Q2/23 and Q3/23) and shows a 256% increase over Q4/22 revenue with a healthy order backlog.
- Elsight's Design-Win partners are showing notable expansion in their operations.
- Elsight continues its recurring revenue growth as Halo units are deployed more widely among existing Design-Win partners in repeat orders as well as new ones.
- New worldwide Halo flavor and security enhancements to the AllSight Cloud.
- New academic research shows the value of Elsight Halo for usage in unmanned systems in rural areas.

Elsight Limited (ASX: ELS) (Elsight or the Company), the carrier agnostic, AI-powered connectivity solutions company, is pleased to provide the following **Business Update**, outlining the Company's achievements over the December quarter.

Increasing demand and a wide variety of new use cases in the military and defense sectors – contributed to better-than-expected revenues during the quarter.

During the quarter, the Company enjoyed increasing demand for dependable communications in the military and defense sectors. The Company gained new customers within the IDF and other large defense contractors, including DDR&D (MAFAT, the equivalent of DARPA in the U.S.). It is important to mention that those deployed systems are not only for unmanned systems but also for other mission-critical communication needs. The Company's management sees this trend continuing and expanding in 2024, and in parallel to its current efforts, is looking to leverage our success in a wide range of new use cases by applying them globally with other military forces.

Q4/23 revenue is almost **the same as the combined revenues of the two previous quarters** (Q2/23 and Q3/23) and shows a **256% revenue increase** over Q4/2022 (as described in **Table 1**, on Page 3). It is important to note that dealing with the government affects the payment terms; the below 4C report does not include some of the receivables that will be collected during Q1/24 and will improve the Company balance sheet.

The Company's Design-Win partners are showing continued development and scale

During the quarter, multiple Design-Win partners have shown notable development both in business and regulatory aspects.

Airobotics has shown an increase in its operations, and with the long-term Design Win partnership between the companies, Elsight sees a material increase in orders from this partner. Since the recent US FAA TC approval announcement in September 2023, the Company has received orders valued at more than \$100,000, which represents 215% growth over all of Airobotics' orders from the beginning of 2023, and this collaboration is expected to continue.

DroneUp, a leading autonomous drone delivery company based in the U.S. expanded its operations during the quarter and submitted follow-on orders in addition to a [Landmark FAA Approval](#) for Beyond Visual Line of Sight ("BVLOS") in the U.S.

Australian-based Sphere Drones announced their new innovative product, the HubX, based on the Company's Halo solution. HubX is a standalone drone operations system for data capture in various industries. During the first deployment, while the publicized Optus outage shut down many wireless systems in the country, the HubX was able to continue without a hitch [thanks to the robust connectivity of Elsight's Halo](#).

Drone Delivery Canada (DDC) [announced](#) that it has achieved official approval for BVLOS flights in tandem with the transportation of dangerous goods for its DroneCare route, marking a significant milestone in the development of its drone delivery capabilities in the healthcare market segment.

In addition to the above, another 14 Design-Win partners have submitted return orders during the quarter; most of them were delivered and the Company has booked a healthy backlog of orders expected to be delivered during the first quarter of 2024.

Continued growth in recurring revenues

The Company continued to enjoy Q-over-Q growth in recurring revenues. The acceleration is based on Elsight’s proprietary data communication and cloud services as more Halos are being deployed with new and existing customers. Unaudited recurring income totalled approximately US\$142k (~A\$215k) during the quarter, up from ~US\$103k (A\$156k) at the September 2023 quarter, in a growth rate of 38%. As the market continues to mature and the rate of adoption grows, the impact of the increasing recurring revenues will become more and more material. The growth came from both existing as well as new customers, some of whom are in the defence sector.

Taking all the Design-Wins that have been previously reported with new ones constantly added throughout 2023, the recurring revenue growth continues to validate the Company’s strategy to win increased market share through new Design-Win partners and grow together with each of them as they expand their deployments.

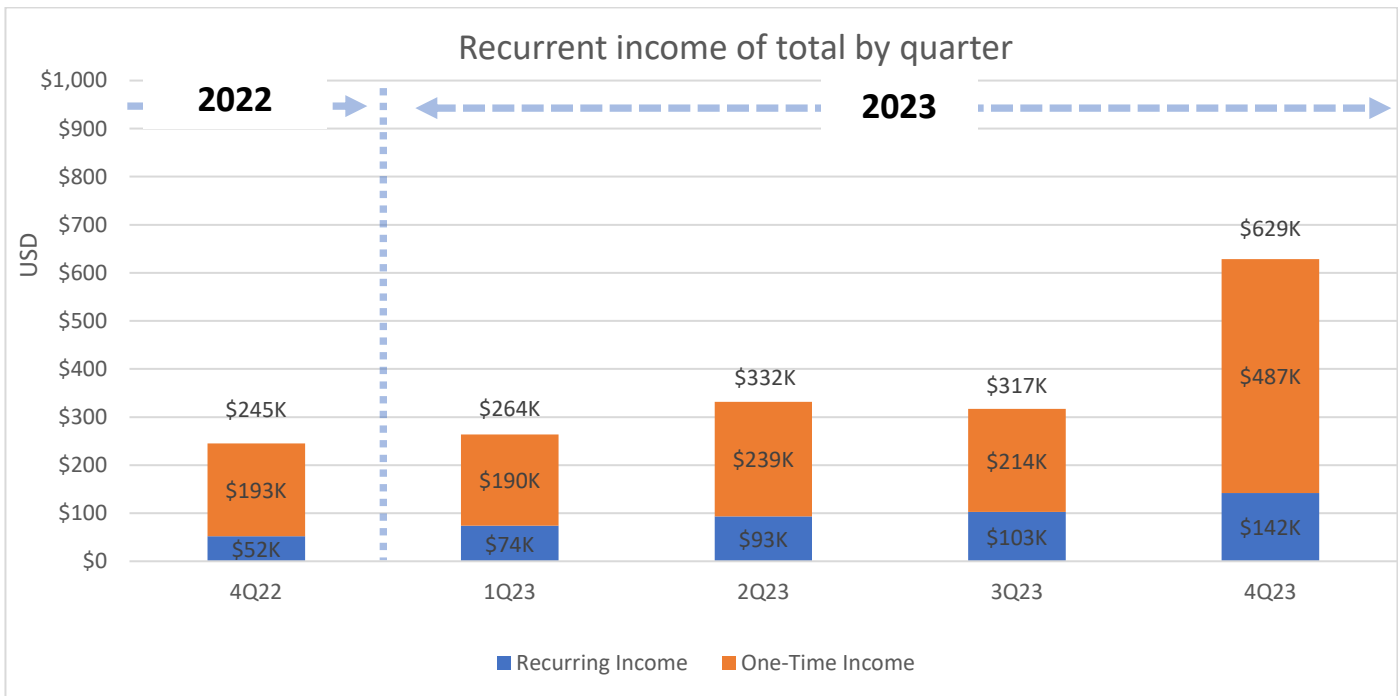


Table 1 This chart sets out the unaudited quarterly income for the Company with the increasing contribution of the Recurrent Income based on AllSight Cloud and connectivity plans.

It is important to note that the typical sales cycle in the defence sector is much longer and more demanding than the sales cycle in our main market of drone parcel delivery. However, this is a matured and healthy market that can contribute to a faster revenue growth.

New worldwide Halo flavor and security enhancements to the AllSight Cloud

Elsight unveiled a worldwide version of its Halo drone communications system which will allow operators to fly anywhere in the world without the need for equipment changes to accommodate different cellular systems and operators. It was made commercially available in December 2023 and announced following the holidays in 2024 to a very positive [media reception](#). This development is expected to not only ease the Company partners' inventory management but also reduce the Company's supply chain and improve working capital efficiency by having a small number of SKUs. In addition, the Company is constantly investing in enhancing its portfolio security, and a recent version of the AllSight cloud delivers even more robust infrastructure to the Company partners.

External analysis validates the Company Halo solution

New academic research¹ was released showing the value of the ElSight Halo for usage in unmanned systems in rural areas beyond the visual line of sight. The solution was tested and [documented](#) in a recent research paper at a SESAR 3 Joint Undertaking event. The paper was written by Timo Kasurinen, from the North European Logistics Institute and South-eastern Finland University of Applied Sciences. The Halo solution provided the necessary redundancy, reliability, and connection confidence for beyond the visual line of sight operation, surpassing other solutions like single solar and different communication solutions.

Corporate

Cash at the bank on 31 December 2023 totalled US\$2,704K. Payments to related parties and their associates during the quarter totalled US\$29K comprising Directors' fees.

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

-ENDS-

For more information, please contact:

¹ Kasurinen, T. (2023), [LTE Mobile Network Technical Feasibility for Unmanned Aerial Vehicle BVLOS operations in a Rural Test Area](#), North European Logistics Institute South-Eastern Finland University of Applied Sciences XAMK, Kotka, Finland

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About Elsieht

Elsight (ASX:ELS) (www.elsight.com) Elsieht's flagship product, the Halo, uses AI-based multi-link bonding to provide the most robust connectivity for drones and other unmanned systems. By adding cellular communications aggregated with satellite and RF communications, the Halo is 99.99% reliable and cyber secured. With options for less than a 100-gram card or a boxed ground version, the Halo provides continuous connectivity even in the most challenging areas for stationary, portable, or actively mobile situational requirements. Elsieht's products serve many vertical markets leveraging UAV and UAS technologies including the military, HLS, public safety, delivery, medical, oil and gas, utilities, inspections, surveillance and others. Elsieht was founded in 2009.

Appendix 4C

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

Name of entity

ELSIGHT LIMITED

ABN

98 616 435 753

Quarter ended ("current quarter")

31 December 2023

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	474	1,339
1.2 Payments for		
(a) research and development	(291)	(1,416)
(b) product manufacturing and operating costs ⁽ⁱ⁾	(138)	(402)
(c) advertising and marketing	(117)	(723)
(d) leased assets	-	-
(e) staff costs	(150)	(684)
(f) administration and corporate costs ⁽ⁱ⁾	(123)	(666)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	46	185
1.5 Interest and other costs of finance paid	(6)	(15)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	190
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(305)	(2,192)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1)	(9)
(d) investments	-	-
(e) intellectual property	-	(35)
(f) other non-current assets	-	-

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

2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(1)	(44)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	70
3.3	Proceeds from exercise of options	1	1
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – principal elements of lease payments	(95)	(190)
3.10	Net cash from / (used in) financing activities	(94)	(119)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,113	5,195
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(305)	(2,192)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	(44)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(94)	(119)

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

4.5	Effect of movement in exchange rates on cash held	(9)	(136)
4.6	Cash and cash equivalents at end of period	2,704	2,704

⁽ⁱ⁾ The Group has reclassified US\$74K of costs paid during the period 1 January – 30 September 2023 as were presented in previous reports from administration and corporate to product manufacturing costs.

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1	Bank balances	2,668	1,255
5.2	Call deposits	36	1,858
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,704	3,113

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 – Payment to directors for their salaries and fees.	29
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other – Convertible Notes	5,223	5,223
7.4 Total financing facilities	5,223	5,223
7.5 Unused financing facilities available at quarter end		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	
	At 31 December 2023 the Group has issued 25,583,333 Convertible Notes with a face value of A\$0.30 each to Gleneagle Securities Nominees Pty Ltd. The Convertible Notes issued have a total face value of US\$5,223,000 at quarter end.	
	The Convertible Notes bear interest at a rate of 8% per annum (capitalised) and are secured over all assets of the Borrower and its subsidiaries. 25,149,500 Convertible Notes mature on 30 December 2024; the remaining 433,833 Convertible Notes mature 31 March 2025.	

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(305)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,704
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,704
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	8.9
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?
	Answer: N/A
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
	Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

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

Date: 31 January 2024

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

Notes

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