APPENDIX 4E
PRELIMINARY FINAL REPORT

1. DETAILS OF REPORTING PERIOD

Name of Entity	Elsight Limited ("the Company")
ABN	98 616 435 753
Reporting Period	31 December 2019
Previous Corresponding Period	31 December 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	12 months ended Current Period US$	12 months ended Previous Period US$	Increase/ (decrease) %	Amount change US$
Revenues from ordinary activities	1,287,897	1,691,922	(24%)	(404,025)
Loss from ordinary activities after tax attributable to members	(3,192,433)	(4,206,972)	(24%)	1,014,539
Net loss for the period attributable to members	(3,192,433)	(4,206,972)	(24%)	1,014,539

	Amount Per Security	Franked Amount Per Security
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil
Previous Corresponding Period	Nil	Nil
Record Date for Determining Entitlements	Not Applicable	

Commentary on results:
Refer to section 14 below.

3. STATEMENT OF COMPREHENSIVE INCOME

Refer to attached financial statements.

4. STATEMENT OF FINANCIAL POSITION

Refer to attached financial statements.

5. STATEMENT OF CASH FLOWS

Refer to attached financial statements.

6. STATEMENT OF RETAINED EARNINGS/CHANGES IN EQUITY

Refer to attached financial statements.

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7. DIVIDENDS/DISTRIBUTIONS

No dividends declared in current or prior year.

8. DETAILS OF DIVIDEND REINVESTMENT PLANS

Not Applicable

9. NET TANGIBLE ASSETS PER SHARE

	Current Period	Previous Period
Net tangible asset backing per ordinary security	1.62 cents	4.65 cents

10. DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

Control gained over entities

Name of entity (or group of entities)	N/A
Date control gained	N/A
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)	N/A
Consolidated profit/(loss) from ordinary activities of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	N/A

Loss of control over entities

Name of entity (or group of entities)	N/A
Date control lost	N/A
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)	N/A
Profit/(loss) of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	N/A

11. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not Applicable

12. ANY OTHER SIGNIFICANT INFORMATION NEEDED BY AN INVESTOR TO MAKE AN INFORMED ASSESSMENT OF THE COMPANY'S FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Refer to attached financial statements.

13. FOREIGN ENTITIES

Not Applicable

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14. COMMENTARY ON RESULTS FOR PERIOD AND EXPLANATORY INFORMATION

Refer to commentary on page 2 of the attached financial statements.

15. AUDIT

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

Nir Gabay
Managing Director

28 February 2020

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ELSIGHT LIMITED

ABN 98 616 435 753

PRELIMINARY FINAL REPORT
31 DECEMBER 2019

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Review of operations

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

Elsight Limited ("the Company") and controlled entities ("the Group") had a loss for the year of $3,192,433 (2018: loss of $4,206,972). The 2019 loss included selling, general and administrative expenses of $3,660,673.

The net assets of the Group have decreased by $3,084,798, from net assets of $4,500,060 at 31 December 2018 to net assets of $1,415,262 at 31 December 2019.

As at 31 December 2019, the Group's cash and cash equivalents decreased from a balance of $3,632,926 at 31 December 2018 to a balance of $933,517 at 31 December 2019. As at 31 December 2019 the Group has working capital of $936,808 (2018: $4,288,342).

Significant changes in the state of affairs

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

Highlights during the year

Halo

The Group unveiled its new Halo communication platform at the world's largest mobile technology conference in February 2019. Halo's breakthrough technology integrates Elsight's high bandwidth totally secured data transmission technology while introducing a dramatically reduced form factor, weight, power consumption and heat index. The platform is offered in two main configurations: a highly compact standalone external device, or a lightweight internal board. The Halo 2000/4000 features multiple cellular modules, built in WiFi, and an optional video encoder and an internal battery. Halo is highly adaptable and able to integrate with any platform or device, making it ideal for future-forward OEMs, drones or other application that requires light weight, hi-bandwidth, highly secured and always-on solution.

During the first half of the year, the Group focused on the development of its Halo technology towards commercialisation, involving a ramp up in the final testing, logistics, marketing and sales activities.

Proof of concept (**POC**) trials were undertaken throughout the year, with feedback received from the trials incorporated into Halo performance enhancements resulting in the release of the first commercially available version of Halo, Halo v1.1, in November 2019. The Group's testing and pilot programs continued towards the end of the year, with feedback and data generated by the testing expected to result in additional features and enhancements which will be incorporated in a later release of Halo v1.2. Through the execution of a methodical, sector-by-sector approach, the Company is aiming to have and maintain a single, comprehensive version of firmware that is as generic as possible in order to minimise the cost of installation, integration and adaptation.

The Group continues to receive positive feedback from the field trials being undertaken with POC partners, providing additional validation of the Group's flagship Halo program. It is anticipated that proof of concept testing trials undertaken in December 2019 and January 2020 will result in conversion into commercial contracts projected to deliver material revenues during 2020.

Following the end of the reporting period the Group was pleased to announce on 13 January 2020 that it had received an initial purchase order for 50 Halo units from Israel's largest defence, aerospace, robotics, and aviation manufacturer – Israel Aerospace Industries (IAI), a key strategic partner for Elsight. The 50 unit order was received following an extended, wide-ranging POC that paved the way for the full integration of the Halo communications platform within the robotic and unmanned systems of IAI subsidiary ELTA.

Halo's Integration with Drones

In October 2019, Elsight received its first purchase order for 10 Halo units from Airobotics, a tier one US-based provider of automated, industrial drone and aerial data platforms, for a pilot trial. Airobotics' pilotless drone solution is the world's first and only regulatory compliant UAV solution that can be operated remotely. Airobotics' end-to-end automated drone platform is purpose-built to simplify drone operations. The pilot trial commenced in November 2019, with Airobotics successfully conducting a wide range of tests during numerous flights with airborne platforms and fully integrated with Halo v1.1 onboard as the communications solution. The success of these flight tests follows system adaptations undertaken by both Elsight and Airobotics to advance the integration process. The next step in the integration process is the carrying out of

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additional test flights in different field flight test areas and terrains across the country, and upon their success, additional field flight tests will be carried out in the U.S. designed to prepare Airobotics' Halo-integrated platform to become the world's first, manually driven and autonomous drone based airborne platform and communication system certified by the Federal Aviation Authority (FAA) to fly over urban and populated areas.

The Group is making significant progress validating Halo v1.1's applicability and integrability for drone operations beyond the visual line of sight (BVLOS) through the field trials with Airbotics, Gadfin, and other drone technology solution providers. The Group's partners and clients have carried out hundreds of hours of test flights of Halo-equipped drones, and the responses coming in indicate that the capabilities of the Halo platform with respect to the facilitation and enabling of BVLOS drone operations continue to unequivocally differentiate it from other market entrants.

Halo v1.1 Software Platform

In December 2019 the Group received an initial A$91,000 purchase order for Halo firmware equipped Multichannel units from the official National Fire and Rescue Authority, the official fire and rescue authority of the State of Israel. The National Fire and Rescue Authority will use these units to provide always-on communication between their national headquarters and their command and control centres spread across the country.

This is the first purchase order for Elsight technology solutions including the newly released Halo software platform, with a cloud based, recurring revenue model, in this case supplied as firmware with Multichannel units. Beyond the actual modernisation and upgrade of the Multichannel platform, this Multichannel equipped with Halo's advanced firmware provides the Group with a new capability to sell new cloud-based services under a monthly recurring revenue model to existing and new customers alike.

The purchase order comes after a year of field trials conducted to demonstrate the capabilities of Elsight's technology, and the identification of a wide array of applications for Elsight's technology within the National Fire and Rescue Authority's platforms.

Opening of US office with local staff

In November 2019, the Group opened its US office in Atlanta, Georgia and announced the appointment of Karin Zalcberg as Director of Sales and Marketing for Elsight North America. In North America, the Group remains focused on extending its ongoing network with a number of Original Equipment Manufacturers (OEMs) in both the defence and civilian sectors. In addition to established OEM relationships the Company has begun laying the groundwork for direct and indirect sales via distributors and reseller agreements under Ms Zalcberg's leadership.

Placement

Subsequent to the reporting period the Group announced on 10 January 2020 that it had raised AUD$2.88m through a placement to a Hong Kong-based group of cornerstone investors who have been shareholders for the majority of the Group's history of quotation on the ASX. The funds raised will be used to expand sales and marketing efforts with respect to the commercialisation of Halo in addition to being earmarked as working capital required for expanding the manufacture of product. Following the placement, the Group is well attended to execute its commercialisation strategy for 2020.

Significant events after the reporting period

Since the reporting date the following significant events have occurred:

- Mr Raj Logaraj resigned as a director of the Company effective 7 January 2020.
- Mr Peter Marks became a director of the Company on 10 January 2020.
- On 13 January 2020 the Company announced the receipt of an initial purchase order for 50 Halo units from Israel Aerospace Industries following a large-scale Proof-of-Concept field trial.
- On 14 January 2020 the Company completed a private placement to a group of significant investors. 9,000,000 fully paid ordinary Shares were issued at $0.32 to raise approximately $2.88m.
- On 27 February released a business update as a consequence of COVID-19 virus outbreak.

There were no other significant events after reporting date.

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ELSIGHT LIMITED

ABN 98 616 435 753

PRELIMINARY FINAL REPORT 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		US$	US$
Revenue from contracts with customers	2	1,287,897	1,691,922
Cost of sales		(836,732)	(771,651)
Gross profit		**451,165**	**920,271**
Other income		31,952	78,277
Selling, general and administrative expenses	3	(3,660,673)	(3,836,146)
Share based payments	9	43,438	(1,362,695)
Loss before finance expenses		**(3,134,118)**	**(4,200,293)**
Finance expenses	3	(58,315)	(6,679)
Loss before income tax		**(3,192,433)**	**(4,206,972)**
Income tax expense		-	-
Loss for the year		**(3,192,433)**	**(4,206,972)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation, net of tax	8(c)	85,318	(615,004)
Total comprehensive loss for the year attributable to owners of the Company		**(3,107,115)**	**(4,821,976)**
Loss per Share attributable to owners of the Company			
Basic loss per share (cents per share)	4	(3.33)	(4.51)
Diluted loss per share (cents per share)	4	(3.33)	(4.51)

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

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PRELIMINARY FINAL REPORT 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 US$	2018 US$
CURRENT ASSETS			
Cash and cash equivalents		933,517	3,632,926
Trade and other receivables	5	571,618	1,152,211
Inventory		251,148	314,277
Other current assets		107,388	93,272
TOTAL CURRENT ASSETS		**1,863,671**	**5,192,686**
NON-CURRENT ASSETS			
Plant and equipment		292,177	326,701
Intangible assets		141,909	45,140
Right of use assets	1C	161,703	-
TOTAL NON-CURRENT ASSETS		**595,789**	**371,841**
TOTAL ASSETS		**2,459,460**	**5,564,527**
CURRENT LIABILITIES			
Trade and other payables	6	694,882	883,882
Borrowings		64,461	20,462
Lease liabilities	1C	167,520	-
TOTAL CURRENT LIABILITIES		**926,863**	**904,344**
NON-CURRENT LIABILITIES			
Borrowings		8,072	64,976
Provision for employees' severance benefits		109,263	95,147
TOTAL NON-CURRENT LIABILITIES		**117,335**	**160,123**
TOTAL LIABILITIES		**1,044,198**	**1,064,467**
NET ASSETS		**1,415,262**	**4,500,060**
SHAREHOLDERS' EQUITY			
Issued capital	7	11,739,495	11,667,737
Reserves	8	1,630,987	1,613,865
Accumulated losses		(11,955,220)	(8,781,542)
SHAREHOLDERS' EQUITY		**1,415,262**	**4,500,060**

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

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ELSIGHT LIMITED

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PRELIMINARY FINAL REPORT 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

	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 2018	**5,091,738**	**(4,574,570)**	**1,296,456**	**(152,005)**	**(296,796)**	**1,364,823**
Loss for the year	-	(4,206,972)	-	-	-	(4,206,972)
Other comprehensive loss	-	-	-	(615,004)	-	(615,004)
Total comprehensive loss for the year	-	(4,206,972)	-	(615,004)	-	(4,821,976)
Transactions with owners in their capacity as owners:						
Issue of shares	7,059,429	-	-	-	-	7,059,429
Capital raising costs	(483,430)	-	-	-	-	(483,430)
Share based payments	-	-	1,381,214	-	-	1,381,214
Balance at 31 December 2018	**11,667,737**	**(8,781,542)**	**2,677,670**	**(767,009)**	**(296,796)**	**4,500,060**
Balance as at 31 December 2018	11,667,737	(8,781,542)	2,677,670	(767,009)	(296,796)	4,500,060
Change in accounting policy (Note 1d)	-	(6,003)	-	-	-	(6,003)
Restated total equity at 1 January 2019	11,667,737	(8,787,545)	2,677,670	(767,009)	(296,796)	4,494,057
Loss for the year		(3,192,433)	-	-	-	(3,192,433)
Other comprehensive loss	-	-	-	85,318	-	85,318
Total comprehensive loss for the year	-	(3,192,433)	-	85,318	-	(3,107,115)
Transactions with owners in their capacity as owners:						
Issue of shares	71,758	-	-	-	-	71,758
Exercise of options	-	24,758	(24,758)	-	-	-
Share based payments	-	-	(43,438)	-	-	(43,438)
Balance at 31 December 2019	**11,739,495**	**(11,955,220)**	**2,609,474**	**(681,691)**	**(296,796)**	**1,415,262**

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

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PRELIMINARY FINAL REPORT 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		US$	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,901,353	1,380,214
Payments to suppliers and employees		(4,389,030)	(4,706,119)
Interest received		33,165	58,683
Interest paid		(26,718)	(6,679)
Net cash used in operating activities		**(2,481,230)**	**(3,273,901)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(8,522)	(165,709)
Purchase of intangible assets		(100,222)	-
Proceeds from deposits		-	43,658
Net cash used in investing activities		**(108,744)**	**(122,051)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from the issue of shares		71,758	6,594,517
Repayment of borrowings		(19,511)	(88,551)
Principal elements of lease payments		(170,601)	-
Net cash used in financing activities		**(118,354)**	**6,505,965**
Net decrease in cash and cash equivalents		(2,708,328)	**3,110,014**
Cash and cash equivalents at the beginning of the financial year		3,632,926	1,093,853
Foreign exchange		8,919	(570,941)
Cash and cash equivalents at the end of the financial year		**933,517**	**3,632,926**

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report has been prepared in accordance with Australian Accounting Standards (**AASBs**) (including Australian interpretations) adopted by the Australian Accounting Standard Board (**AASB**) and the *Corporations Act 2001*.

a) Basis of Measurement and Reporting Conventions

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.

b) Adoption of New and Amended Accounting Standards

The Group had to change its accounting policies as a result of the adoption of AASB 16 *Leases* from 1 January 2019. The impact of the adoption of this standard has had a material impact on the amounts presented in the Group's financial statements as disclosed below.

c) Changes in Accounting Policies

This note explains the impact of the adoption of AASB 16 *Leases* on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has applied the Modified Retrospective Approach in its adoption of AASB 16. Comparative information has not been restated as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the adoption of AASB 16 are recognised in the opening statement of financial position at 1 January 2019, with the cumulative effect of initial application recognised as an adjustment to the opening retained earnings balance at that date.

AASB 16 *Leases* – Impact of Adoption

Lease liabilities

On adoption of AASB 16 the group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.58%.

Lease liabilities recognised at 1 January 2019 are as follows:

	2019
	US$
Operating lease commitments disclosed as at 31 December 2018	361,902
Less: Discount applied	(36,970)
Operating lease commitments discounted using the lessee's incremental borrowing rate at the date of initial application	324,932
Add: finance lease liabilities recognised as at 31 December 2018	-
Less: short-term leases recognised on a straight-line basis as expense	-
Lease liability recognised as at 1 January 2019	**324,932**

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Of which are:

	31 December 2019	1 January 2019
	US$	US$
Current lease liabilities	167,520	189,618
Non-current lease liabilities	-	135,314
Total lease liability	**167,520**	**324,932**

Right of use assets

The associated right of use assets for property and vehicle leases were measured on a retrospective basis as if the new rules had always been applied. There were no other right of use assets and no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application.

The recognised right of use assets relate to the following types of assets:

	31 December 2019	1 January 2019
	US$	US$
Office space	135,645	250,155
Motor vehicles	26,058	68,774
Total right of use assets	**161,703**	**318,929**

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right of use assets – increase by US$318,929; and
- Lease liabilities – increase by US$324,932.

The net impact on accumulated losses on 1 January 2019 was an increase of US$6,003.

d) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the 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.

Key Estimates and judgements

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 probability of achieving non-market based vesting conditions of performance options is assessed at each reporting period.

Management have applied judgement in assessing the likelihood of achieving the performance milestone for Class B Performance Options based on revenues from future contracts expected to be realised prior to the vesting date.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Trade receivables

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

NOTE 2: REVENUE FROM CONTRACTS WITH CUSTOMERS	**2019 US$**	**2018 US$**
Revenue recognised at a point in time:		
- Sale of physical goods	1,040,884	1,610,938
Revenue recognised over a period of time:		
- SLA and other services	247,013	80,984
Total revenue	1,287,897	1,691,922
The Group has recognised the following assets and liabilities related to contracts with customers:		
- Contract assets	-	-
- Contract liabilities	34,610	40,668

NOTE 3: EXPENSES	**2019**	**2018**
Loss before income tax from continuing operations includes the following specific expenses:	**US$**	**US$**
Selling, general and administrative expenses:		
- Salaries and related expenses	604,288	1,410,444
- Sales, Marketing and exhibitions	747,172	94,826
- Travel	157,724	230,688
- Office rent, maintenance and communication	377,239	289,958
- Depreciation of plant and equipment and amortisation of intangible assets	78,854	71,186
- Professional services	388,899	564,967
- Research and development	1,140,758	917,827
- Others	165,739	382,909
Total selling, general and administrative expenses	3,660,673	3,836,146
Finance expenses:		
- Interest and bank fees	14,109	6,679
- Exchange rate differences	44,206	-
Total finance expenses	58,315	6,679

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NOTE 4: LOSS PER SHARE	**2019**	**2018**
	US$	**US$**
Loss per share (EPS)		
a) Loss used in calculation of basic EPS and diluted EPS	(3,192,433)	(4,206,972)
b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share	95,991,667	93,352,891

The weighted average number of ordinary shares outstanding (the denominator of the EPS calculation) for the year ended 31 December 2019 has been adjusted to reflect the capital reorganisation.

NOTE 5: TRADE AND OTHER RECEIVABLES	**2019**	**2018**
	US$	**US$**
CURRENT		
Trade and other receivables	428,547	1,024,530
Loss allowance	(9,310)	(2,257)
Short term deposits	79,358	73,106
Prepaid expenses	73,023	56,832
	571,618	1,152,211

NOTE 6: TRADE AND OTHER PAYABLES	**2019**	**2018**
	US$	**US$**
CURRENT		
Trade payables	122,090	194,848
Other payables and accrued expenses	538,182	648,366
Contract liability	34,610	40,668
	694,882	883,882

NOTE 7: ISSUED CAPITAL		**2019**	**2018**
		US$	**US$**
(a) Share Capital			
96,242,599 (31 December 2018: 95,888,599) fully paid ordinary shares	7b	11,739,495	11,667,737

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NOTE 7: ISSUED CAPITAL

(b) Movement in Ordinary Capital

	Date	No.	Unit Price US$	Total US$
Opening balance at 1 January 2018		**83,381,391**	**-**	**5,091,738**
Issue of institutional placement shares	15-Mar-18	12,507,208	0.56	7,059,429
Costs of capital raising		-	-	(464,911)
Issue of 625,360 options to lead manager, deemed capital raising cost (Note 9)		-	-	(18,519)
Closing balance at 31 December 2018		**95,888,599**		**11,667,737**
Issue of shares on conversion of options	1-Aug-19	100,000	0.67	20,100
Issue of shares on conversion of options	2-Oct-19	232,000	0.68	47,043
Issue of shares on conversion of options	22-Oct-19	22,000	0.70	4,615
Closing balance at 31 December 2019		**96,242,599**		**11,739,495**

(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 8: RESERVES	**Ref**	**2019**	**2018**
a) Share Based Payment Reserve		**US$**	**US$**
47,219,360 (31 December 2018: 47,269,360) options on issue	8b	2,609,474	2,677,670
		2,609,474	2,677,670

b) Movement in Share Based Payment Reserve	**No.**	**US$**
Opening balance at 1 January 2018	**45,819,000**	**1,296,456**
Pro-rata expense of 8,608,000 ESOP options	-	371,171
Pro-rata expense of 30,000,000 ESOP performance options	-	856,898
Pro-rata expense of 211,000 ESOP options	-	79,516
Issue of ESOP options	25,000	15,380
Issue of ESOP options	68,000	10,533
Issue of ESOP options	42,000	3,298
Issue of options to lead manager	625,360	18,518
Issue of director options	460,000	12,489
Issue of ESOP options	194,000	9,305
Issue of ESOP options	200,000	40,368
Cancellation of ESOP options on termination of employment	(164,000)	(36,262)
Closing balance at 31 December 2018	**47,269,360**	**2,677,670**

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NOTE 8: RESERVES

	No.	US$
Closing balance at 31 December 2018	**47,269,360**	**2,677,670**
Net pro-rata (income) of options issued in prior periods (Note 9)	-	(31,733)
Issue of ESOP options (Note 9)	50,000	12,214
Issue of ESOP options (Note 9)	215,000	6,496
Issue of ESOP options (Note 9)	186,000	6,823
Cancellation of ESOP options on termination of employment	(147,000)	(37,238)
Options exercised and converted to fully paid ordinary shares	(354,000)	(24,758)
Closing balance at 31 December 2019	**47,219,360**	**2,609,474**

c) Foreign Exchange Reserve	**US$**	**US$**
	(681,691)	(767,009)

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

d) Predecessor Accounting Reserve	**US$**	**US$**
	(296,796)	(296,796)

The reserve arises from the capital reorganisation and records the net liabilities of Elsight Limited as at the acquisition date of 2 June 2017.

NOTE 9: SHARE BASED PAYMENTS

Options Issued in Prior Periods

Options issued in prior periods that impact the year ended 31 December 2019 are as follows:

Description	Grant date	Exercise price	Expiry date	Options granted	Options forfeited on termination of employment[(i)]	Options on issue at 31 Dec 2019	Vesting condition	Net pro-rata income/(expense) recorded at 31 Dec 2019
		A$		No.	No.	No.		US$
ESOP Performance Options	2-Jun-17	$0.20	2-June-22	30,000,000	-	30,000,000	(ii),(iii),(iv)	(406,335)
ESOP Options	2-Jun-17	$0.20	2-June-22	8,608,000	-	8,608,000	(v)	231,564
ESOP Options	10-Dec-17	$0.60	9-Oct-22	211,000	(86,000)	125,000	(v)	28,659
ESOP Options	9-Jan-18	$1.08	14-Nov-22	25,000	-	25,000	(vi)	2,256
ESOP Options	5-Feb-18	$0.80	4-Feb-23	68,000	(68,000)	-	(v)	(5,576)
ESOP Options	26-Apr-18	$0.745	4-Mar-23	42,000	(30,000)	12,000	(vii)	1,381
Director Options	28-May-18	$0.60	9-Oct-22	460,000	-	460,000	(viii)	50,650
ESOP Options	1-Aug-18	$0.675	31-Jul-23	194,000	(77,000)	117,000	(v)	11,798
ESOP Options	1-Aug-18	$0.60	31-Jul-23	200,000	-	200,000	(ix)	16,632
Total				**39,808,000**	**(261,000)**	**39,547,000**		**(68,971)**

(i) 164,000 options were forfeited as of 31 December 2018; an additional 97,000 options were forfeited during the year ended 31 December 2019.

(ii) 10,000,000 Class A Performance Options vested on 7 June 2018 upon achievement of the vesting milestone

(iii) 10,000,000 Class B Performance options vest and become exercisable upon the Company achieving aggregate revenue of A$4,000,000 from total sale of products based on the Technology in a Year. The implied value of Class B Performance Options is US$1,037,544 however the probability was determined to be nil at 31 December 2019 due to the uncertainty of meeting the performance milestone by 7 June 2020. The expense recorded in relation to these options in prior financial years of $406,335 has been reversed during the year ended 31 December 2019.

(iv) 10,000,000 Class C Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A$10,000,000 from total sale of products based on the Technology in a Year. The implied value of Class C Performance Options is US$1,037,544 however the probability was determined to be nil at 31 December 2019 due to the uncertainty of meeting the performance milestone by 7 June 2020.

(v) 50% on the second anniversary of the grant date and an additional 6.25% at the end of each quarter of continuous service thereafter.

(vi) 50% on 15 November 2017 and an additional 3.125% at the end of each quarter of continuous service thereafter.

(vii) 50% on 5 March 2020 and an additional 6.25% at the end of each quarter of continuous service thereafter.

(viii) 50% on 10 October 2020 and an additional 6.25% at the end of each quarter of continuous service thereafter.

(ix) 50% vested immediately and 50% on 1 August 2019.

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NOTE 9: SHARE BASED PAYMENTS

Share Based Payments Issued During the Year Ended 31 December 2019

During the year ended 31 December 2019 the Group recorded the following share based payments:

- The issue of 50,000 Employee Share Plan Options exercisable at A$0.60, on or before 1 December 2023 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 50% on 1 December 2019 and an additional 12.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US$12,214 recorded at 31 December 2019.

- The issue of 215,000 Employee Share Plan Options exercisable at A$0.35, on or before 23 June 2024 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 50% on 24 June 2021 and an additional 6.25% at the end of each quarter of continuous services thereafter. 50,000 of these options were cancelled during the year following the termination of employees' employment with the Group. The pro-rata expense of the remaining 165,000 options of US$6,496 has been recorded at 31 December 2019.

- The issue of 186,000 Employee Share Plan Options exercisable at A$0.41, on or before 12 November 2024 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 50% on 13 August 2021 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US$6,823 recorded at 31 December 2019.

Fair Value

The fair value of ASX listed options has been determined with reference to market price on the date of commencement of trade. 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**
Number of options	50,000	215,000	186,000
Grant date	1-Dec-18	24-Jun-19	20-Nov-19
Issue date	7-Feb-19	12-Aug-19	22-Nov-19
Exercise price	A$0.60	A$0.35	A$0.41
Expected volatility	100%	100%	100%
Implied option life	5 years	4.87 years	4.98 years
Expected dividend yield	nil	nil	nil
Risk free rate	2.46%	2.21%	2.21%
Valuation per option A$	$0.4164	$0.2605	$0.3294
Exchange rate	$0.7015	$0.6994	$0.6994
Valuation per option US$	$0.2921	$0.1822	$0.2304
Total valuation US$	$14,605	$39,172	$42,851

Share Based Payments Expense

Share based payment expense is comprised as follows:

	2019	**2018**
	US$	**US$**
Total net (income)/expense recognised in profit or loss	(43,438)	1,362,695
Total expense recognised in equity	-	18,519
Total net share based payments (income)/expense	**(43,438)**	**1,381,214**