ASX APPENDIX 4D
HALF-YEAR FINANCIAL REPORT TO 30 JUNE 2022

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1. DETAILS OF REPORTING PERIOD

Name of Entity	Elsight Limited ("the Company")
ABN	98 616 435 753
Reporting Period	30 June 2022
Previous Corresponding Period	30 June 2021

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	30 June 2022 US$	30 June 2021 US$	Increase/ (Decrease) US$	Amount change %
Revenues from ordinary activities	360,029	248,335	111,694	45%
Profit/(Loss) after tax from ordinary activities attributable to members	(2,246,917)	(3,268,462)	1,021,545	31%
Profit/(Loss) after tax attributable to members	(2,246,917)	(3,268,462)	1,021,545	31%

	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:

For further information, refer to the review of activities contained in the directors' report, which forms part of the attached Interim Financial Report.

3. NET TANGIBLE ASSETS PER SHARE

	30 June 2022 US$	30 June 2021 US$
Net tangible asset backing per ordinary security	1.74 cents	3.54 cents

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4. 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
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

5. DIVIDEND DETAILS

No dividend has been paid or recommended to be paid for the half-year ended 30 June 2022.

6. DETAILS OF DIVIDEND REINVESTMENT PLANS

Not Applicable

7 DETAILS OF ASSOCIATE AND JOINT VENTURE ENTITIES

N/A

8. FOREIGN ENTITIES

Not Applicable

9. AUDIT

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report. The review report contains a paragraph emphasising a material uncertainty related to going concern.

David Furstenberg

Mr David Furstenberg
Executive Director

24 August 2022

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ELSIGHT LIMITED

ABN 98 616 435 753

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2022

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CORPORATE DIRECTORY

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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The Directors of Elsight Limited (the **Company**) and its controlled entity (the **Group** or **Consolidated Entity**) submit the following report for the half year ended 30 June 2022 (**Financial Period**).

DIRECTORS

The names and the particulars of the Directors of the Company during the half year and to the date of this report are:

Name	Position	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	-

COMPANY SECRETARY

Mr Mark Licciardo (appointed 15 March 2019)

REVIEW AND RESULTS OF OPERATIONS

Against a backdrop of extremely difficult trading conditions resulting from the persistence of the COVID-19 pandemic contagion, Elsight recorded a net loss of the Group after income tax for the half year ended 30 June 2022 of US$2,246,917 (30 June 2021: loss of US$3,268,462). The half year ended 30 June 2022 loss included selling, general and administrative expenses of US$2,438,518 and non-cash share based payments of US$160,035.

The net assets of the Group have increased by US$35,558 from net assets of US$2,832,265 at 31 December 2021 to net assets of US$2,867,823 at 30 June 2022.

As at 30 June 2022, the Group's cash and cash equivalents increased from a balance of US$1,990,057 at 31 December 2021 to a balance of US$2,027,635.

As at 30 June 2022 the Group has working capital of US$2,569,252 (working capital of US$2,403,409 at 31 December 2021).

REVIEW OF ACTIVITIES

The first half of FY22 has been a break-out period for the Company with several commercial orders and agreements secured for the delivery of 'Halo' units in a number of jurisdictions globally. The continued adoption of UAV's (Unmanned Aerial Systems) across a number of markets is driving the need for complete connection confidence and has Elsight well positioned to participate in this growth moving forward. The Group continues to enhance its brand equity and position as a market leader. During the period, the Group participated in multiple industry events where the industry's sentiment about the Halo solution and its value to the sector was very positive. While the revenues are still small, the Group is encouraged that the drone market has started picking up ahead of the originally anticipated schedule. The Group's prior estimate for Walmart/DroneUp deployment during 2022 called for deployment in only up to seven stores. In May, Walmart announced a drone service deployment during 2022 in 34 stores, in 6 states, to serve about 4,000,000 prospective customers. This is very encouraging as it is a full year ahead of the Group own business plan schedule.

'Design Win' Strategy

Elsight continued with the implementation and success of its 'Design Win' strategy in 2022, with 24 new partners added to the Group program during the half year, bringing the total number of companies working with Elsight's Halo solution to 60. The new partners are from a range of regions (Europe, North America, South East Asia) and industries (Home Land Security, logistics, inspection), which not only provides strong validation for the Group's Halo product, but also has Elsight well positioned for future revenue growth as these different markets and companies advance their commercial opportunities within the unmanned market.

In a major milestone for the Company, the 'Design Win' strategy delivered commercial success in 1H FY22 by converting existing partners into paying customers, beginning with Walmart backed, DroneUp, in January. The Company announced that its "Halo" bonded connectivity solution had 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 is providing 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.

Following the success of drone parcel delivery services, Walmart announced plans to expand this service, through their partnership with DroneUp, from one US state to six by the end of 2022, providing Elsight an opportunity to participate in the growth of this exciting market through its collaboration with DroneUp.

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Towards the end of the reporting period, Elsight announced that Air Method's wholly owned drone subsidiary, Spright, placed its first commercial order of Halo units after signing a five-year agreement with the Company to expand UAV healthcare services in North America. As part of this agreement, Spright will also become an official reseller of 'Halo' in the United States, further increasing the Company's distribution opportunities in that region.

Subsequent to period end, and 45 days after the initial order, the Company received already a repeat order of Halo units from Spright under the multi-year agreement and the Company expects further orders will be received over the remainder of calendar 2022 and beyond as they continue to expand their drone network in the US and in Europe.

Also subsequent to the end of the half year period, the Company announced a break-through in South America by announcing that Brazilian company, Speedbird Aero, signed a commercial agreement for Halo to be used for BVLOS drone parcel delivery services in Brazil, with subsequent orders expected over calendar years 2022 and 2023.

The drone market is rapidly developing and providing a number of commercial opportunities for Elsight. The 'Design Win' strategy ensures the Company is well positioned to grow organically with the market with minimal further sales effort or cost. Our brand recognition as a high-end quality product is working in our favour jointly with our close integration and "Design Win" strategy.

Auterion to integrate Halo into its Skynode Platform
During the half year, Auterion announced that they will be integrating Halo into its Skynode platform to deliver absolute connection confidence for drones and their customers. Auterion operates one of the world's most widely used open-source flight controller platforms for drones and unmanned vehicles. The Company believes this integration will yield additional channels to new prospects and customers to integrate the Halo into their system.

Technology Update
During the period, the Company introduced RID (Remote-ID) and 5G features to be offered to new and existing partners. The Company has already received its first commercial order for the Halo 5G unit during the half year, expanding the Company's product portfolio and creating growth engines with new and existing customers. Remote-ID is an FAA standard for 'tail numbers' for drones, that will become a requirement for all drone operators commencing in September 2023.

NA'AMA Project Update
Elsight's involvement in the NAAMA Initiative continued during the half year with the Group participating in the 5th NAAMA event, with all participants in the initiative choosing to use the Group's Halo in their drones' platforms.

Halo-as-a-Service (HaaS) payment model
The HaaS payment model was introduced in the period to better align Elsight's business model with that of some of our customers, by lowering the upfront payments while modestly increasing recurring monthly payments received by the Company during the term of Halo usage. The new pricing model allows the Company's customers to grow and scale with a smaller upfront cost, while improving Elsight's recurring revenue opportunity and profitability over time as a win-win strategy. The board view the recurring revenue model as a significant business achievement since it improves the longevity of ongoing revenues from hardware selling which typically is a onetime revenue. In the long run, this also becomes a recession proof model that increases Y-O-Y even during economic downturns.

Regulatory Update
An important part of the path forward is the regulatory environment and during the period the Company announced that its R&D and certification partner, Airobotics Inc, received FAA Special Class Airworthiness Criteria for their OPTIMUS 1-EX Unmanned Aircraft. OPTIMUS 1-EX is embedded with Elsight's "Halo" technology to enable Beyond Visual Line of Sight (BVLOS) connection capability. The Board maintains that with the completion of this stage of the certification process, that Airobotics is likely to be among the first in the world to receive the highly coveted FAA TC (Type Certificate).

PERCEIVED RISK: What may happen if the FAA continues to hold back, and the granting of full Type Certification takes much longer or never materializes?
This is a question asked by some due to the FAA's long delay. Despite the current reality, the industry is progressing ahead of schedule (based on the granting of local waivers). Under the worst-case scenario (the current situation with no blanket FAA certification) this already robust expansion rate is expected to keep accelerating. Therefore, while highly desired with huge potential benefits, this is not a showstopper. However, moving from here forward, there is only a win-win. If and when the FAA completes the certification it is reasonable to assume that this market will enjoy a significant surge in growth.

As powerful as the FAA may be, it is unlikely to stop progress. In addition, regulatory approvals in other countries have competitive implications for the US industry. FAA certification will clearly enable expansion of the flying distances from the stores - increasing the universe of customers (and the number of drones therefore Halo HW revenues) while similarly increasing recurring communication revenues due to more and longer flights. The market, led by giant pioneers like Walmart, is progressing cautiously while studying and adapting to all the necessary changes and improvements. Once this tedious but necessary process is completed, both the market leaders and the FAA itself will be better positioned for mass deployment, enabling the geographic and operational potential to cover the vast majority of the American population.

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Waivers versus FAA certification: Securing waivers is a relatively simple and quick process (as the Walmart expansion from 3 to 34 stores within five months has shown). However, such waivers usually come with limitations on the delivery radius (typically one to two nautical miles from the store). Therefore, the main benefit of a full FAA certification would be in the significant expansion of the flight distance from the stores and the associated increase in prospective customers and flights. Such a distance increase benefits the Company in a number of ways: It fosters an increase in recurring revenues, the number of drones (one-time hardware fee), and the universe of customers.

In reality, the lack of FAA certification helps the service providers focus first on the inside-the-store operational challenges rather than on the long-distance flight control logistics and as such goes hand-in-hand with the industry and not against it. Accordingly, the market has expanded and grown a full year faster than initially anticipated, and the rate of growth increased under the current waivers-only scenario. Therefore, it is reasonable to assume that the FAA certification on top of this, would become a strong catalyst for mass deployment.

The board believes that the main risk to Elsight is not driven by regulatory risk but by the rate of growth of the nascent drone market. It is, therefore, reasonable to view the current lack of FAA certification not as an impairment but rather as a future catalyst to a market that is expanding even without it and the Company is well positioned to at least grow organically with the industry.

Corporate

During the period, the Company completed a transaction related to the early exercise of Founder options which raised a total of A$3.345 million. Funds raised from the early exercise of options allows Elsight to continue to accelerate the execution of the 'Design Win' strategy and the rollout of the Company's Halo technology with commercial partners.

The Company announced aerospace industry veteran Mr Kevin Hightower's appointment to Elsight's Advisory Board to help drive commercial drone operations globally. Mr Hightower has been advancing technology adoption in the aerospace industry for 21 years, with over 15 years at Lockheed Martin, over three years with Wing (Alphabet/Google's drone company) and he recently joined Cirium as VP of Product. Mr Hightower's skills and expertise will be of tremendous value to the Company moving forward.

Towards the end of the half year, the Company announced it had offered a long-term incentive component for Chief Executive Officer Yoav Amitai. Mr Amitai was issued with a total of 3,583,452 unlisted options exercisable at A$0.48 on or before 26 May 2027. The options were issued pursuant to the Group's Employee Share Option Plan in four (4) Tranches, with each tranche having a performance or service-based vesting condition. The long-term incentive has been designed to ensure appropriate rewards are in place for the continued commercial success of Elsight.

The Company's Annual General Meeting was held on 27 May 2022 with all resolutions passed.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

On 7 July 2022 the Group announced Brazilian company Speedbird Aero had selected Elsight's 'Halo' bonded connectivity solution for the crucial task of controlling drones BVLOS. The companies signed a commercial agreement, with the first commercial order of 'Halo' sets received in July 2022 and subsequent orders expected for calendar years 2022 and 2023 under Elsight's recently launched innovative HaaS pricing model.

On 3 August 2022 the Group announced the conversion of 66,667 unlisted options exercisable at $A0.28 on or before 23 April 2025 to Ordinary Shares. Total cash received by the Group was A$18,667 (US$12,971).

On 17 August 2022 the Group announced the receipt of a repeat "Halo" order from Spright following the multi-year agreement announced on 30 June 2022. The commercial value of this order is approximately US$85,000. The order consists of both upfront hardware revenue as well as recurring software revenues with further orders expected over 2H calendar 2022.

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.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the Directors of the Consolidated Entity on page 17 forms part of the Directors' Report for the half year ended 30 June 2022.

This report is signed in accordance with a resolution of the Board of Directors.

Mr. David Furstenberg
Executive Director
24 August 2022

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2022

	Note	Half year ended 30 June 2022 US$	Half year ended 30 June 2021 US$
Revenue		360,029	248,335
Cost of sales		(209,426)	(396,603)
Gross profit/(loss)		**150,603**	**(148,268)**
Other income	4	218,003	29
Selling, administration and general expenses		(2,438,518)	(2,979,960)
Share based payments	7	(160,035)	(121,107)
Loss before financing expenses		**(2,229,947)**	**(3,249,306)**
Finance expenses		(16,970)	(19,156)
Loss before income tax expense		**(2,246,917)**	**(3,268,462)**
Income tax expense		-	-
Loss for the half year		**(2,246,917)**	**(3,268,462)**
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation, net of tax		(238,667)	(18,842)
Total comprehensive loss for the period net of tax		**(2,485,584)**	**(3,287,304)**
Basic and diluted loss per share (cents)	9	(1.61)	(2.45)

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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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Notes	30 June 2022 US$	31 Dec 2021 US$
CURRENT ASSETS			
Cash and cash equivalents		2,027,635	1,990,057
Trade and other receivables	3	222,445	353,106
Inventory	4	1,011,410	853,338
TOTAL CURRENT ASSETS		**3,261,490**	**3,196,501**
NON-CURRENT ASSETS			
Plant and equipment		159,832	202,598
Intangible assets		53,038	95,254
Right of use assets		201,796	333,929
TOTAL NON-CURRENT ASSETS		**414,666**	**631,781**
TOTAL ASSETS		**3,676,156**	**3,828,282**
CURRENT LIABILITIES			
Trade and other payables		530,423	577,005
Lease liabilities		161,815	216,087
TOTAL CURRENT LIABILITIES		**692,238**	**793,092**
NON-CURRENT LIABILITIES			
Provision for employees' severance benefits		69,688	78,427
Lease liabilities		46,407	124,498
TOTAL NON-CURRENT LIABILITIES		**116,095**	**202,925**
TOTAL LIABILITIES		**808,333**	**996,017**
NET ASSETS		**2,867,823**	**2,832,265**
EQUITY			
Issued capital	5	23,736,298	21,375,191
Reserves	6	764,177	2,590,315
Accumulated losses		(21,632,652)	(21,133,241)
TOTAL EQUITY		**2,867,823**	**2,832,265**

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2022

	Issued Capital US$	Accumulated Losses US$	Share Based Payment Reserve US$	Foreign Exchange Reserve US$	Predecessor Accounting Reserve US$	Total US$
Balance as at 1 January 2021	21,361,856	(15,176,042)	3,190,227	(646,416)	(296,796)	8,432,829
Total Comprehensive Income						
Loss for the period	-	(3,268,462)	-	-	-	(3,268,462)
Foreign currency translation differences	-	-	-	(18,842)	-	(18,842)
Total comprehensive loss for the period	-	(3,268,462)	-	(18,842)	-	(3,287,304)
Transactions with owners in their capacity as owners:						
Capital raising costs	(13,077)	-	-	-	-	(13,077)
Expiry of options	-	18,518	(18,518)	-	-	-
Share based payments	-	-	121,107	-	-	121,107
Balance as at 30 June 2021	**21,348,779**	**(18,425,986)**	**3,292,816**	**(665,258)**	**(296,796)**	**5,253,555**

	Issued Capital US$	Accumulated Losses US$	Share Based Payment Reserve US$	Foreign Exchange Reserve US$	Predecessor Accounting Reserve US$	Total US$
Balance as at 1 January 2022	21,375,191	(21,133,241)	3,384,301	(497,190)	(296,796)	2,832,265
Total Comprehensive Income						
Loss for the period	-	(2,246,917)	-	-	-	(2,246,917)
Foreign currency translation differences	-	-	-	(238,667)	-	(238,667)
Total comprehensive loss for the period	-	(2,246,917)	-	(238,667)	-	(2,485,584)
Transactions with owners in their capacity as owners:						
Issue of shares	2,361,107	-	-	-	-	2,361,107
Exercise of options	-	1,747,506	(1,747,506)	-	-	-
Share based payments	-	-	160,035	-	-	160,035
Balance as at 30 June 2022	**23,736,298**	**(21,632,652)**	**1,796,830**	**(735,857)**	**(296,796)**	**2,867,823**

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

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CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE HALF YEAR ENDED 30 JUNE 2022

	Half year ended 30 June 2022 US$	Half year ended 30 June 2021 US$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	464,022	299,085
Interest received	23	29
Interest paid	(8,345)	(4,200)
Payments to suppliers and employees	(2,539,811)	(3,379,177)
Net cash used for operating activities	**(2,084,111)**	**(3,084,263)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,024)	(28,318)
Proceeds from disposal of fixed assets	-	40,194
Conversion of short-term deposit to cash	-	108,524
Net cash (used for)/provided by investing activities	**(1,024)**	**120,400**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from the issue of shares	2,362,812	(11,585)
Repayment of borrowings	-	(54,681)
Principal elements of lease payments	(101,003)	(52,149)
Shareholder refunds	-	(33,935)
Net cash provided by/(used for) financing activities	**2,261,809**	**(152,350)**
Net increase/(decrease) in cash and cash equivalents held	**176,674**	**(3,116,213)**
Cash and cash equivalents at the beginning of period	1,990,057	7,924,309
Impact of movement in foreign exchange rates	(139,096)	(12,320)
Cash and cash equivalents at the end of period	**2,027,635**	**4,795,776**

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

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NOTE 1: REPORTING ENTITY

The interim financial report (**Report**) of Elsight Limited (the **Company**) and it's controlled entities (the **Group**) (**Consolidated Entity**) for the half year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 24 August 2022.

Elsight Limited is a listed public company, trading on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia.

The Group's registered office and principal place of business is Level 7, 330 Collins Street, Melbourne VIC 3000 Australia.

NOTE 2: BASIS OF PREPARATION

a) Statement of compliance

This interim financial report has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

This interim financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report. It is recommended that this interim financial report be read in conjunction with any public announcements made by Elsight Limited up to the date of this report in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

b) Basis of measurement and reporting conventions including capital reorganisation

This interim financial report has been prepared on an accruals basis and is based on historical cost. The interim financial report is presented in United States dollars and all values are rounded to the nearest dollar unless otherwise stated.

The accounting policies adopted are consistent with the accounting policies adopted in the Group's annual financial statements for the year ended 31 December 2021.

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 half-year ended 30 June 2022, the Group recorded a loss of US$2,246,917, net cash outflows from operating activities of US$2,084,111 and had net working capital of US$2,569,252.

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.

The continuing viability of the Group and its ability to continue as a going concern and meet its liabilities 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.

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NOTE 2: BASIS OF PREPARATION (CONTINUED)

c) Going Concern Basis (Continued)

Should the Group be unable to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

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 Elsight's business. For the period to (and at) 30 June 2022 there has been no significant impact on operations, cash flow and financial condition. The Group's operations continue to run well.

From 2020 - 2022 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 later 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$2,027,635 at 30 June 2022;
- 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 half year.

e) Critical accounting judgements and estimates

The preparation of financial statements requires the use of certain critical accounting judgements and estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. There are no areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements except for the following:

Key estimate: 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.

Assumptions made regarding the collectability of the Group's receivables are disclosed at Note 3.

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NOTE 2: BASIS OF PREPARATION (CONTINUED)

e) Critical accounting judgements and estimates (Continued)

Key estimate: 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 7.

	30 June 2022	31 Dec 2021
NOTE 3: TRADE AND OTHER RECEIVABLES	**US$**	**US$**
Trade and other receivables	141,235	243,134
Loss allowance	-	(32,031)
Prepaid expenses	13,784	90,820
Short term deposits	67,426	51,183
	222,445	353,106

	30 June 2022	31 Dec 2021
NOTE 4: INVENTORY	**US$**	**US$**
Inventory at cost	1,011,410	858,338
	1,011,410	858,338

From 31 December 2021 to 30 June 2022 the Group's inventory balance has increased by US$217,980 due to bad debts recovered in the form of inventory. The Group has recognised other income of US$217,980 in relation to recoveries of bad debts at 30 June 2022.

From 2020 – 2022 there has been a global chip shortage primarily due to COVID 19. The Group continues to maintain elevated 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 later in 2022.

	30 June 2022	31 Dec 2021
NOTE 5: ISSUED CAPITAL	**US$**	**US$**
(a) Share Capital		
150,252,914 (31 December 2021: 133,470,748) fully paid ordinary shares	23,736,298	21,375,191
	No.	**$**
(b) Movement in Ordinary Capital		
Opening balance at 1 January 2022	133,470,748	21,375,191
Issue of shares on conversion of options on 24 January 2022	54,166	10,881
Issue of shares on conversion of options on 22 April 2022	13,040,720	1,933,078
Issue of shares on conversion of options on 23 May 2022	3,687,280	519,162
Costs of capital raising	-	(102,014)
Closing balance at 30 June 2022	**150,252,914**	**23,736,298**

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NOTE 6: RESERVES	30 June 2022 US$	31 Dec 2021 US$
Total reserves	**764,177**	**2,590,315**
(a) Share Based Payment Reserve		
32,503,104 (31 December 2021: 46,571,819) options on issue	1,796,830	3,384,301
	No.	**$**
(b) Movement in Share Based Payment Reserve		
Opening balance at 1 January 2022	46,571,819	3,384,301
Expense of options issued in prior periods, prior to cancellations	-	197,034
Issue of ESOP options (Note 7)	200,000	2,817
Issue of ESOP options (Note 7)	300,000	4,015
Issue of ESOP options (Note 7)	3,583,452	21,580
Options exercised and converted to fully paid ordinary shares (Note 5)	(16,782,167)	(1,747,506)
Options cancelled on termination of employment	(1,370,000)	(65,411)
Closing balance at 30 June 2022	**32,503,104**	**1,796,830**

	30 June 2022 US$	31 Dec 2021 US$
(c) Foreign exchange reserve	(735,857)	(497,190)

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

	US$	US$
(d) Predecessor Accounting Reserve	(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 7: SHARE BASED PAYMENTS

Summary of Share Based Payments Issued During the Half Year

During the half year ended 30 June 2022 the Group recorded the following share based payments:

- The issue of 200,000 Employee Share Plan Options exercisable at A$0.43, on or before 25 April 2027 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 26 April 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US$2,817 recorded at 30 June 2022. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued.

- The issue of 300,000 Employee Share Plan Options exercisable at A$0.49, on or before 25 April 2027 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 26 April 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US$4,015 recorded at 30 June 2022. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued.

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NOTE 7: SHARE BASED PAYMENTS (CONTINUED)

Summary of Share Based Payments Issued During the Half Year (Continued)

- The issue of 3,583,452 Employee Share Plan Options exercisable at A$0.48, on or before 26 May 2027 to Yoav Amitai, CEO of the Group, in 4 tranches of 895,863 Options vesting subject to the achievement of the following Performance Milestones:
    - Tranche 1 – Revenue milestone of US$3.0M in one (1) year in each of the years 2022 or 2023.
    - Tranche 2 – Closing 20-day Volume Weighted Average Price (VWAP) of A$0.90 commencing 1 January 2023 until 31 December 2024, or closing 45-day VWAP of A$0.90 until 31 December 2022.
    - Tranche 3 – Closing 20-day VWAP of A$1.80 commencing 1 January 2023 until 31 December 2024, or closing 45-day VWAP of A$1.80 until 31 December 2023.
    - Tranche 4 – Service condition only – 25% on 26 May 2023 and an additional 6.25% at the end of each quarter of continuous services thereafter.

  The Black Scholes option pricing model was used to determine the fair value of Tranches 1 and 4. The fair value of Tranches 2 and 3 was determined using a Monte Carlo simulation model.

  The likelihood of achieving the Tranche 1 Performance Milestone and the Tranche 4 service condition has been assessed at 100%. The likelihood of achieving the Tranche 2 and 3 Performance Milestones is built into the Monte Carlo Simulation model.

  The fair values of the options are as follows:

    - Tranche 1 – US$0.17 per option / US$152,297 total.
    - Tranche 2 – US$0.09 per option / US$80,628 total.
    - Tranche 3 – US$0.05 per option / US$44,793 total.
    - Tranche 4 – US$0.17 per option / US$152,297 total.

  The total fair value of the 3,583,452 options is US$430,015. After the application of vesting periods the expense recognised at 30 June 2022 in relation to the 3,583,452 options is US$21,580.

Fair Value

Option fair values were determined using the following option pricing models and inputs:

Options	ESOP Options	ESOP Options	ESOP Options Tranche 1	ESOP Options Tranche 2	ESOP Options Tranche 3	ESOP Options Tranche 4
Option pricing model	Black Scholes	Black Scholes	Black Scholes	Monte Carlo	Monte Carlo	Black Scholes
Number of options	200,000	300,000	895,863	895,863	895,863	895,863
Grant date	26-Apr-22	26-Apr-22	26-May-22	26-May-22	26-May-22	26-May-22
Issue date	26-Apr-22	26-Apr-22	26-May-22	26-May-22	26-May-22	26-May-22
Exercise price	A$0.43	A$0.49	A$0.48	A$0.48	A$0.48	A$0.48
Expected volatility	70%	70%	70%	70%	70%	70%
Implied option life	5 years	5 years	5 years	5 years	5 years	5 years
Expected dividend yield	nil	nil	nil	nil	nil	nil
Risk free rate	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Valuation per option A$	$0.20	$0.19	$0.24	$0.13	$0.07	$0.24
Exchange rate	$0.69	$0.69	$0.69	$0.69	$0.69	$0.69
Valuation per option US$	$0.14	$0.13	$0.17	$0.09	$0.05	$0.17
Total valuation US$	$28,000	$39,000	$152,297	$80,628	$44,793	$152,297

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NOTE 7: SHARE BASED PAYMENTS (CONTINUED)

Share Based Payments Expense

Share based payment expense at 30 June 2022 is comprised as follows:

	30 June 2022	30 June 2021
	US$	US$
Net expense of options issued in comparative and prior periods	131,623	121,107
Issue of 200,000 ESOP options	2,817	-
Issue of 300,000 ESOP options	4,015	-
Issue of 3,583,452 ESOP options	21,580	-
Total share based payments expense	**160,035**	**121,107**

NOTE 8: DIVIDENDS

The Group did not pay or propose any dividends in the half year to 30 June 2022.

NOTE 9: LOSS PER SHARE

	30 June 2022	30 June 2021
	US$	US$
Basic and diluted loss per share (cents)	1.61	2.45

The following reflects income and share data used in the calculation of basic and diluted loss per share:

Total loss for the period	2,246,917	3,268,462
	No.	No.
Weighted average number of ordinary shares in calculating basic and diluted loss per share	139,263,181	133,341,582

NOTE 10: COMMITMENTS

There have been no changes to the Group's commitments since 31 December 2021.

NOTE 11: SEGMENT INFORMATION

The Group has identified its operating segment based on internal reports that are reviewed by the Board and management. The Group has one operating segment.

NOTE 12: CONTINGENT ASSET AND LIABILITIES

The directors are not aware of any contingent liabilities or assets as at 30 June 2022 or subsequent to period end.

NOTE 13*:* RELATED PARTY TRANSACTIONS

Directors and their related parties continued to receive salaries and fees during the period at rates consistent with 31 December 2021. Cash payments of director fees were suspended from 1 June 2022 whilst the Group considers the settlement of director fees incurred from that date in equity. Director fees are accrued at contractual rates from 1 June 2022 to the date of this report.

During the half year the Group issued 3,583,452 Options to CEO Yoav Amitai. Refer to Note 7 for details.

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NOTE 14: EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 7 July 2022 the Group announced Brazilian company Speedbird Aero had selected Elsight's 'Halo' bonded connectivity solution for the crucial task of controlling drones BVLOS. The companies signed a commercial agreement, with the first commercial order of 'Halo' sets received in July 2022 and subsequent orders expected for calendar years 2022 and 2023 under Elsight's recently launched innovative HaaS pricing model.

On 3 August 2022 the Group announced the conversion of 66,667 unlisted options exercisable at $A0.28 on or before 23 April 2025 to Ordinary Shares. Total cash received by the Group was A$18,667 (US$12,971).

On 17 August 2022 the Group announced the receipt of a repeat "Halo" order from Spright following the multi-year agreement announced on 30 June 2022. The commercial value of this order is approximately US$85,000. The order consists of both upfront hardware revenue as well as recurring software revenues with further orders expected over 2H calendar 2022.

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.

DIRECTORS' DECLARATION

The Directors of Elsight Limited declare that:

1. The financial statements and notes, as set out on pages 6 to 16 are in accordance with the Corporations Act 2001 and:
    a) comply with Accounting Standard AASB 134: Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
    b) give a true and fair view of the Consolidated Entity's financial position as at 30 June 2022 and of its performance for the period ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

David Furstenberg

Mr David Furstenberg
Executive Director
24 August 2022

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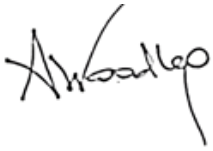
DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF ELSIGHT LIMITED

As lead auditor for the review of Elsight Limited for the half-year ended 30 June 2022, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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, 24 August 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Elsight Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Elsight Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, 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 half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 2 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 conclusion is not modified in respect of this matter.

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Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit (WA) Pty Ltd

Ashleigh Woodley

Director

Perth, 24 August 2022