Elsight Limited

ABN 98 616 435 753

Annual Report - 31 December 2023

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Elsight Limited
Annual Report
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General information

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entities (also referred to as **Group**). Elsight Limited is a listed public company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity.

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were issued by the board of directors on 21 March 2024.

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Directors	Major General (ret) Ami Shafran – Non-Executive Chairman Mr David Furstenberg – Executive Director Mr Howard Digby – Non-Executive Director Mr Joshua (Jim) Landau – Non-Executive Director
Company secretary	Mr Mark Licciardo
Registered office	Level 7 330 Collins Street Melbourne VIC 3000 AUSTRALIA Ph: +61 3 8689 9997 Email: info@el-sight.com
Share registry	Automic Registry Services Level 5, 191 St Georges Terrace Perth WA 6000 AUSTRALIA Phone: 1300 288 664 (within Australia) +61 2 9698 5414 (outside Australia) Fax: +61 8 9321 2337 Email: hello@automic.com.au Web: www.automic.com.au
Auditor	RSM Australia Partners Level 32 Exchange Tower 2 The Esplanade Tower Perth WA 6000 AUSTRALIA
Securities exchange listing	Elsight Limited shares are listed on the Australian Securities Exchange (**ASX code: ELS**)
Website	www.el-sight.com

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Dear Shareholders,

It is an honor to present the 2023 Annual Report for Elsight Limited which outlines the Group's material progress over the past year in the high-growth unmanned aerial vehicle (UAV) and unmanned ground systems (UGS) market.

Elsight's Q4/2023 was marked by significant growth in revenues, orders, and deliveries while expanding from the civil drone parcel delivery market and into the Homeland Security (HLS), military, and defence arena, led by local needs under combat conditions.

We can't ignore the challenging events that began on 7 October 2023. However, as the wise expression says, for every calamity, there lies a window of opportunity. And that opportunity for Elsight kicked into full gear with immediate and massive demand for our innovative robust connectivity systems for many types of unmanned applications from defence organizations. It must be said that several new Halo applications were revealed to our team by our customers, such as, video transmission from Go-Pro cameras in search & rescue missions. Given the fact that defence and warfare's focus is moving to distributed, low-cost, intelligent, multi-domain robotic systems and that is exactly where Elsight with its robust connectivity plays a key role, with our ultra-light, palm-size Halo platform of less than 100 grams.

Within this market of defence, many sub-markets revolve around the critical needs for unmanned surveillance, inspection, and real-time data or video transmission in use cases such as search & rescue, large event management, natural disasters, fire fighting, border control, prison management, security of highly sensitive sites, and many others.

Most significantly, Elsight is not removing our focus on the highly promising and growing commercial market in which we have made excellent traction over the past 3 years, but rather adding these large and matured defence/law enforcement/HLS/first responder opportunities in key geographic targets to help increase our revenues as our main market takes off.

At a high level, Elsight **acquired more than 50 strategic Design-Win partners** over the 12 months of 2023 in various market verticals, for a **grand total of 115 Design-Win partners**. From that mix, during the first half of the year, the Group won a strategic, multi-year public tender to supply the Israel Police and other government departments with solutions for Communication On-The-Move (COTM). In Q4, the orders from local defense organizations skyrocketed to $621K USD (A$951K) vs $261K (A$400K) in the same quarter in 2022. Since then, our marketing and sales focus has expanded to include regions of the world that feel threatened by their neighbors such as Eastern Europe , or others who are looking to innovate their defence tools such as the U.S., Singapore, Japan, and Scandinavia.

On the commercial side, the range of our customers' drone applications has increased substantially. Here is a taste of the wide range of use cases and geographies:

- **Sphere Drones** (Australia) announced its new HubX leveraging drones for the mining industry among others followed by the success of its Halo pilot remaining in flight during the Optus service outage thanks to the Halo's multi-link bonded connection.
- **Drone Delivery Canada** (Canada) achieved approval for BVLOS flights for its DroneCare route, delivery capabilities in the healthcare market segment.
- **DroneMatrix** (Belgium) provides data collection for monitoring and surveillance in the port of Antwerp-Bruges.
- **Robotican** (Israel) combines ground robotics and drone capabilities to redefine indoor and underground infrastructure reconnaissance.
- **Bond** (USA) provides public law enforcement or private protection agencies with drone-enabled surveillance for extra security.
- **Speedbird Aero** (Brazil) partners with Skyports Drone Services to deliver the Royal Mail in Orkney.

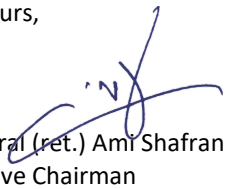
This sample of wide use around the world by drone manufacturers and operators is a testament to the strength of Elsight's footprint in the UAV/UGS market.

Elsight continues to innovate with technology that offers greater scalability with cost efficiencies to customers. This year witnessed the launch of the Worldwide version of the Halo drone communications system, enabling operators to fly anywhere in the world without the need for equipment replacement to accommodate different cellular systems and operators. The team

continued with its innovative product development roadmap of bringing to market various features such as network and broadcast remote identification (RID) to ensure regulatory compliance according to the FAA, EASA and in other countries. Furthermore, Elsight is very proud of the strong customer satisfaction and testimonials by its loyal partners with its second-to-none support and speed rate of order delivery.

Once again, I would like to take this opportunity to thank our employees, partners and shareholders for their dedication and support and I look forward to providing further updates on our progress throughout 2024.

Sincerely yours,



Major General (ret.) Ami Shafran
Non-Executive Chairman
21 March 2024

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Your directors present their report, together with the financial statements of Elsight Limited ("the Company") and controlled entities ("the Group") for the financial year ended 31 December 2023.

Directors
The names and the particulars of the directors of the Company during or since the end of the financial year are:

Name	Status	Appointed	Resigned
Major General (ret) Ami Shafran	Non-Executive Chairman	2 June 2017	-
Mr David Furstenberg	Executive Director	2 June 2017	-
Mr Howard Digby	Non-Executive Director	13 December 2016	-
Mr Joshua (Jim) Landau	Non-Executive Director	1 October 2021	-

Company Secretary
Mr Mark Licciardo (Appointed 15 March 2019)

Principal activities
The principal activities of the Group during the year were the development and commercialisation of Halo in the Unmanned Aerial Vehicle ("UAV") market.

Dividends
There were no dividends paid or recommended during the financial year ended 31 December 2023 (31 December 2022: Nil)

Review and results of operations
Unless otherwise stated all figures in this report are in the Group's presentation currency US$.

Elsight Limited incurred a loss for the year of $3,683,532 (31 December 2022: loss of $4,306,432). The decrease in loss of $622,901 from 31 December 2022 to 31 December 2023 is due to an increase in the Group's gross profit and a decrease in selling, general and administrative expenses.

The net assets of the Group have decreased by $3,510,471, from net assets of $1,849,496 at 31 December 2022 to net liabilities of $1,660,975 at 31 December 2023.

As at 31 December 2023, the Group's cash and cash equivalents decreased from a balance of $5,194,794 at 31 December 2022 to a balance of $2,702,593 at 31 December 2023. As at 31 December 2023 the Group has a working capital of $3,148,709 (31 December 2022: working capital of $5,789,295). Excluded from the 31 December 2023 working capital are convertible notes with a balance of US$4,983,627 which the Group expects to be converted or refinanced before their 30 December 2024 maturity date.

REVIEW OF ACTIVITIES

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Performance Highlights

- Elsight acquired more than 50 strategic Design-Win partners over the 12 months of 2023 in various market verticals, for a grand total of 115 Design-Win partners.
- Baseline Plan (or Planning Versus Execution) - **During 2023 the company exceeded its original Baseline Revenue Plan**
- In H1, Elsight won a strategic, multi-year public tender to supply the **Israel Police** and other government departments with solutions for Communication On-The-Move (COTM).
- **Highlighted partners using Elsight's Halo:**
  - **DroneUp,** a U.S.-based drone delivery company serving the retail giant Walmart, expanded its operations.
  - Australian-based **Sphere Drones** announced its new HubX leveraging drones for the mining industry among others.
  - **Drone Delivery Canada** (DDC) achieved approval for BVLOS flights for its DroneCare route, delivery capabilities in the healthcare market segment.
  - **Airobotics** earned its recent US FAA Type Certification in September for the defense industry.

Annual Sales Metrics

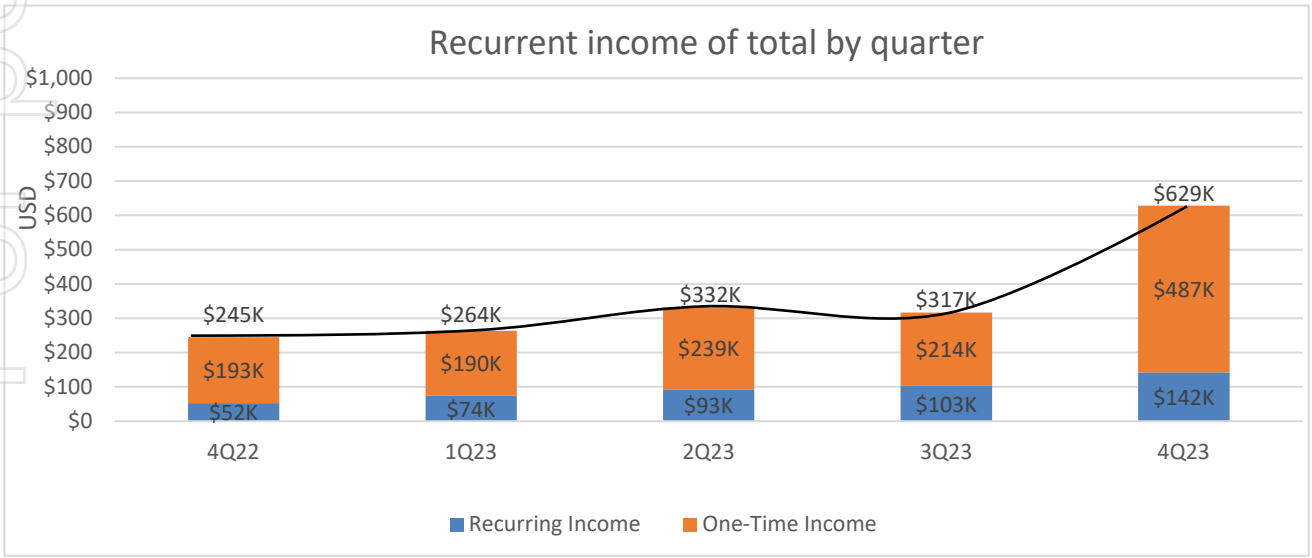
Sales Revenue
$1,541K USD (+87%)
vs $823K in 2022

Recurring Revenue
$411K USD (4x)
vs $73K in 2022

Gross Profit
$807K USD (+85%)
vs $436K in 2022

New Territories
Australia (Sphere Drones)
Japan (ACSL)

Material uptake in HLS market orders
$621K USD (+111%)
vs $261K in 2022



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'Design-Win' strategy contributing to continued product scalability

- In **H2**, Elsight enjoyed a sharp increase in the demand for dependable communications of data and video in the homeland security, military, and defense sectors. Customers came from the IDF and other large defense contractors, including DDR&D (the equivalent of DARPA in the U.S.). The Company's management sees this trend continuing and expanding in 2024 by applying a wide range of new use cases to adjacent markets such as global homeland security, border control, and defense markets.

New product features and developments

Elsight continued to innovate during 2023 and introduced several major product features:

- **H1/23** was dedicated to the Remote ID (RID) being incorporated on all Halo devices to align with United States Federal Aviation Administration (US FAA part 89) requirements. Having this compliance will ease the certification process for our partners while saving them costs by eliminating the need for additional dedicated hardware. The Halo RID capability was recently accepted by the FAA and it adheres to the FAA's accepted RID-ASTM-F3586-22-NOA-22-01 Means Of Compliance (MOC).

- In **H2/23**, Elsight unveiled a Global version of its Halo drone communications system, which will allow operators to fly anywhere in the world without the need for equipment replacement to accommodate different cellular systems and operators.

In addition, the Company is constantly investing in enhancing its portfolio with an innovative product roadmap of transformative new products and features.

2023 An inflection point of growth

The Company continued to enjoy YoY growth in revenues from US$823K in 2022 to US$1,541K in 2023, a growth of 87%. Gross margin remained the same in 2023 at 53%. Recurring revenue increased in 2023 by 463% at US$411K versus US$73K in 2022.

This acceleration is due to Elsight's proprietary data communication and cloud services as more Halos are being deployed with new and existing customers. Market growth is also boosted by the Halo's scalability, enabling more drones to fly concurrently by one operator and reducing the dependency on personnel. The number of new customers acquired in 2023 (51) for a grand total of 115 Design Wins.

As the uncrewed market grows, Elsight profits

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.

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, growing together as they expand their business throughout various vertical markets.

Corporate

In April the Group issued an additional 433,833 convertible notes, resulting in net cash proceeds to the Group of US$70K. The terms and conditions of the convertible notes are disclosed at note 21.

On 31 July 2023, 200,000 options exercisable at $A0.675 and 55,000 options exercisable at A$0.60 expired without exercise or conversion.

On 11 August 2023 the Group incorporated a subsidiary in the USA to provide local sales and support to our US customers.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Likely developments and expected results of operations

The Group's principal continuing activity is the development and commercialisation of the Halo. The Group's future developments, prospects and business strategies are to continue to develop and commercialise this technology.

Matters subsequent to the reporting period
On 7 March 2024 the Group issued 201,522 Shares on the conversion of 183,333 convertible notes.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Environmental regulation
The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

Name:	**Major General (ret) Ami Shafran**
Title:	Non-Executive Chairman (Appointed 2 June 2017)
Qualifications:	-
Experience:	Major General Shafran is the former Head of the Israeli Defence Force Information and Communications Technology Command. In addition, he is currently the Head of the Center for Cyber Technology at Ariel University in Israel. Over the course of his extensive career Major General Shafran held numerous prestigious and prominent positions in the Defence and Intelligence forces of the Israeli Defence Force, including serving as its Chief Scientist, service as Chief of Staff of the Ministry of Defence, and the Research and Development Attaché at the Israeli Embassy in Washington DC.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	151,070 Ordinary shares
Interests in options:	Nil

Name:	**Mr David Furstenberg**
Title:	Executive Director (Appointed 2 June 2017)
Qualifications:	-
Experience:	David has held various senior CEO, Chairman, Board member and VP Global sales positions in a number of publicly traded and privately owned companies, including Comverse (NASDAQ: CNSI) and Audiocodes (NASDAQ: AUDC), Enure, and Vista (a subsidiary of Israel Aerospace Industries). Most recently David was the active Chairman at NovelSat and the CEO at InsurBit, as well as a director of White Cyber Knight Ltd and Insurix Inc., all companies involved in cyber and security businesses in some form. David has built a speciality in assisting with the turnaround of high-tech companies through product and market repositioning (as opposed to reduction in force). He transitioned from non-Executive to Executive Director of the Company from 1 November 2020.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	151,071 Ordinary shares
Interests in options:	Nil

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Name:	**Mr Howard Digby**
Title:	Non-Executive Director (Appointed 13 December 2016)
Qualifications:	Bachelor of Engineering (Mechanical) (Honours)
Experience:	Howard began his career at IBM and has spent 25 years managing technology related businesses in the Asia Pacific region, of which 12 years were spent in Hong Kong, ending with with The Economist Group as Regional Managing Director. Prior to this, he held senior regional management roles at Adobe and Gartner. Upon returning to Perth, Howard served as Executive Editor of WA Business News and now spends his time as a company director, advisor and investor, having played key roles in several M&A and reverse takeover transactions.
Other current directorships:	4DS Memory Limited (Non-Executive Director) Spenda Limited previously known as Cirralto Limited (Non-Executive Director) Singular Health Group Limited (Non-Executive Chairman)
Former directorships (last 3 years):	Vortiv Limited (resigned 19 April 2021)
Special responsibilities:	Nil
Interests in shares:	2,189,096 Ordinary shares
Interests in options:	Nil

Name:	**Mr Joshua (Jim) Landau**
Title:	Non-Executive Director (Appointed 1 October 2021)
Qualifications:	FCPA, FINSIA, AICD, BEE (Hon)
Experience:	Mr Landau has over 40 years' experience as a technology entrepreneur and mentor and brings significant experience as both a senior leader and director of numerous listed and unlisted companies. He currently serves as a Chair for an Australian TEC group of managing directors from diverse industries and is a non-executive director of the private equity Leading Technology Group and Banxa Inc, a listed crypto payments service provider. Mr Landau was the co-founder of one of Australia's first listed software companies, Software Corporate of Australia, which was listed on the second Board of the ASX and was the managing director of Australia's first main board listed IT services company, Datronics Corporation. He was the former chairman of Centricom the developer of the Poli Payments platform, a director of Collaborate Corporation and as director or advisor to several other cutting edge technology companies, including those involved with the emerging UAV industry.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	100,000 Ordinary shares
Interests in options:	Nil

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Information on Key Management Personnel

Name:	**Mr Yoav Amitai**
Title:	Chief Executive Officer
Qualification:	BSc Mechanical Engineering
Experience:	Yoav has been with Elsight for seven years. Prior to becoming the Company's Chief Executive Officer, most recently as Chief Operating Officer and as Chief Innovation & Product Officer before that. With a degree in Mechanical Engineering from the Ben-Gurion University of the Negev and a rich resume that includes serving as General Manager of Agor Engineering, Yoav brings extensive managerial, business strategy, and technical experience to the Elsight table. Yoav played a major part in initiating and executing Elsight's strategic transition from project-based to product-oriented company, leveraging its advanced technology and shaping its technological and business vision. Yoav is well-versed in product design, manufacturing, and "creative engineering" solutions and is a perfect fit to lead Elsight's team.

Name:	**Mr Roee Kashi**
Title:	Chief Technology Officer
Qualification:	-
Experience:	Roee commenced his career in the Israeli Defence Force and has over nine years of experience and expertise in building and developing digital video systems. Roee has been responsible for some major technological achievements including the development of the core software of El-Sight Israel's digital video recorder that is responsible for video encoding and transmission, user interface design and construction of the system, handheld software development (Pocket PC, Smartphone), moving cameras, smart searches, and send notification email recordings to name a few.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Information on Company secretary

Name:	**Mr Mark Licciardo**
Qualifications:	B.Bus (Acc), GradDip CSP, FGIA, FCIS, FAICD
Experience:	Mr Mark Licciardo, of Acclime Corporate Services, has extensive experience working with Boards of ASX listed companies in the areas of corporate governance, accounting and finance and company secretarial practice. His expertise is in developing and guiding effective governance and he is considered a leader in this sector. His 40-year corporate career has encompassed executive roles in banking and finance, funds management, investment and infrastructure development. Mark was the Managing Director and founder of Mertons Corporate Services which was acquired by Acclime in 2022 and is currently Partner and Managing Director of Acclime's Listed Services division and a Non-executive Director of various public and private companies.

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Meetings of Directors

The number of formal meetings of Directors held during the period and the number of meetings attended by each director was as follows:

Directors	Appointment dates	DIRECTORS' MEETINGS Number eligible to attend	DIRECTORS' MEETINGS Number attended
Ami Shafran	Appointed 2 June 2017	9	9
David Furstenberg	Appointed 2 June 2017	9	9
Howard Digby	Appointed 13 December 2016	9	9
Joshua Landau	Appointed 1 October 2021	9	9

Shares under options

Unissued shares under option

At the date of this report, the unissued ordinary shares of Elsight Limited under option are as follows:

Issue Date	Expiry Date	Status	Exercise Price	Number Under Option
12 August 2019	23 June 2024	Unlisted	A$0.35	100,000
29 June 2020	23 April 2025	Unlisted	A$0.28	800,000
29 June 2020	15 May 2025	Unlisted	A$0.34	50,000
29 June 2020	12 June 2025	Unlisted	A$0.32	100,000
18 January 2023	18 July 2025	Unlisted	A$0.37	50,000
23 September 2020	27 July 2025	Unlisted	A$0.30	75,000
2 February 2021	1 February 2026	Unlisted	A$0.43	130,000
15 September 2021	14 September 2026	Unlisted	A$0.42	577,000
15 September 2021	14 September 2026	Unlisted	A$0.48	1,100,000
15 December 2021	14 December 2026	Unlisted	A$0.38	50,000
15 December 2021	14 December 2026	Unlisted	A$0.44	200,000
26 April 2022	25 April 2027	Unlisted	A$0.43	200,000
26 May 2022	25 May 2027	Unlisted	A$0.48	3,583,452
21 September 2022	30 August 2027	Unlisted	A$0.37	2,894,000
18 January 2023	18 January 2028	Unlisted	A$0.37	43,000
				9,952,452

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

Shares issued on the exercise of options

During the year ended 31 December 2023, 5,000 options exercisable at A$0.37 on or before 30 August 2027 were converted to ordinary shares (2022: 16,728,000 options exercisable at A$0.20 on or before 2 June 2022 and 120,834 options exercisable at A$0.28 on or before 23 April 2025 were converted to ordinary shares).

No amounts are unpaid on any of the shares.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

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Indemnifying and insurance of officers
The Company indemnifies each of its directors, officers and company secretary. The Company indemnifies each director or officer to the maximum extent permitted by the *Corporations Act 2001* from liability to third parties, except where the liability arises out of conduct involving lack of good faith, and in defending legal and administrative proceedings and applications for such proceedings.

The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the *Corporations Act 2001*. The Company must also use its best endeavours to insure a director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

Insurance Premiums
During the year the Company paid insurance premiums to insure directors and officers against certain liabilities arising out of their conduct while acting as an officer of the Group. Under the terms and conditions of the insurance contract, the nature of the liabilities insured against and the premium paid cannot be disclosed.

Indemnification of Auditors
To the extent permitted by law, the Company has agreed to indemnify its auditors, RSM Australia Partners, as part of the terms of its audit engagement agreement against claims by third parties arising from their report on the financial report.

Non-audit services
There were no non-audit services provided during the financial year by the auditor.

In the event that non-audit services are provided by RSM Australia Partners, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the *Corporations Act 2001*. These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditor's independence declaration
The auditor's independence declaration as required under section 307C for the year ended 31 December 2023 has been received and can be found on page 21 of the financial report.

Auditor
RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

Remuneration report (audited)
This remuneration report for the year ended 31 December 2023 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth), as amended (**Act**) and its regulations. This information has been audited as required by section 308(3C) of the Act.

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The remuneration report is presented under the following sections:

(1) Introduction
(2) Remuneration governance
(3) Executive remuneration governance
(4) Non-executive Director fee arrangements
(5) Details of remuneration
(6) Additional disclosures relating to equity instruments
(7) Loans from key management personnel (KMP) and their related party
(8) Other transactions and balances with KMP and their related parties
(9) Voting of shareholders at last year's annual general meeting

1. Introduction

Key Management Personnel (**KMP**) have authority and responsibility for planning, directing and controlling the major activities of the Group. KMP comprise the directors of the Company and identified key management personnel.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Board may seek independent advice on the appropriateness of compensation packages, given trends in comparable companies both locally and internationally and the objectives of the Group's compensation strategy.

Key management personnel covered in this report are as follows:

Name	Status	Appointment dates	Resignation dates
Major General (ret) Ami Shafran	Non-Executive Chairman	2 June 2017	-
Mr David Furstenberg	Executive Director	2 June 2017	-
Mr Howard Digby	Non-Executive Director	13 December 2016	-
Mr Joshua Landau	Non-Executive Director	1 October 2021	-
Mr Yoav Amitai	Chief Executive Officer	1 November 2020	-
Mr Roee Kashi	Chief Technology Officer	2 June 2017	-

2. Remuneration governance

The Directors believe the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of a separate remuneration committee. Accordingly, all matters are considered by the full Board of Directors, in accordance with a remuneration committee charter.

During the financial year, the Company did not engage any remuneration consultants.

3. Executive Remuneration Arrangements

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages may include a mix of fixed compensation and equity-based compensation, as well as employer contributions to superannuation funds. Shares and options may only be issued subject to approval by shareholders in a general meeting.

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At the date of this report the Company has three appointed executives, Mr David Furstenberg as Executive Director, Mr Yoav Amitai as Chief Executive Officer and Mr Roee Kashi as Chief Technology Officer. The terms of their Employment Agreements with Elsight Limited are summarised in the following table.

Executive Name	Services Agreement Summary
Mr David Furstenberg	- Executive salary of AUD $50,000 per annum (based on the exchange rate at 20 March 2024, equals approximately US$33,000 per annum). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with Group's reimbursement policies. - The agreement commenced on 1 June 2017 and may be terminated by either party with no notice period.
Mr Yoav Amitai	- For the year ended 31 December 2023, executive salary of ILS 660,000 per annum (based on the exchange rate at 20 March 2024, equals approximately US$180,000). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with Group's reimbursement policies. - The agreement commenced on 1 November 2020 and may be terminated by either party on 104 days' notice. It may be terminated immediately with justifiable cause.
Mr Roee Kashi	- For the year ended 31 December 2023, executive salary of ILS 756,000 per annum (based on the exchange rate at 20 March 2024, equals approximately US$206,000). - Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with Group's reimbursement policies. - The agreement commenced on 6 April 2017 and may be terminated by either party on 180 days' notice. It may be terminated immediately with justifiable cause.

As the Group is in the early stages of operations the Board does not consider the Group's earnings or earnings related measures to be an appropriate Key Performance Indicator (KPI). In considering the relationship between the Group's remuneration policy and the consequences for the Company's shareholder wealth, changes in share price are analysed as well as measures such as successful completion of business development and corporate activities.

Employee Share Option Plan

The Group has established and maintains the Elsight Limited Employee Share Option Plan **(Plan)** to provide ongoing incentives to Eligible Participants of the Company. Eligible Participants include:

- a director (whether executive or non-executive) of the Group;
- a full or part time employee of the Group;
- a casual employee or contractor of the Group; or
- a prospective participant, being a person to whom the offer was made but who can only accept the offer if arrangement has been entered into that will resulting in the person becoming an Eligible Participant.

The Board adopted the Plan to allow Eligible Participants to be granted options to acquire shares in the Company.

The purpose of the Plan is to assist in the reward and motivation of Eligible Participants and link the reward of Eligible Participants to performance and the creation of shareholder value. It is designed to align the interest of Eligible Participants more closely to the interests of shareholders by providing an opportunity for Eligible Participants to receive shares. It provides the Eligible Participants with the opportunity to share in any future growth in value of the Company and provides greater incentives for Eligible Participants to focus on the Company's longer-term goals. There were no Options issued to key management personnel or their related parties under the Plan during the 31 December 2023 financial year (31 December 2022: 5,033,452).

Group Performance

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

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Financial Year	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019
Loss for the year	US$3,683,532	US$4,306,433	US$6,043,694	US$3,880,688	US$3,192,433
Loss per share (cents)	US$2.45	US$2.97	US$4.53	US$3.62	US$3.33
Share price	A$0.38	A$0.34	A$0.38	A$0.425	A$0.39

4. Non-executive director fee arrangement

The Board policy is to remunerate Non-executive directors at a level to comparable companies for time, commitment, and responsibilities. Non-executive directors may receive performance related compensation. directors' fees cover all main Board activities and membership of any committee. The Board has no established retirement or redundancy schemes in relation to Non-executive Directors.

The maximum aggregate amount of fees that can be paid to Non-executive directors is presently limited to an aggregate of A$300,000 (US$203,721) per annum and any change is subject to approval by shareholders at the General Meeting. Fees for Non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Total fees for the Non-executive directors for the financial year were US$110,586 (2021: US$116,060) and cover main Board activities only. Non-executive directors may receive additional remuneration for other services provided to the Group.

All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

5. Details of remuneration

The Key Management Personnel of Elsight Limited includes the current and former Directors of the Company and Key Management Personnel of Elsight during the year ended 31 December 2023.

31 December 2023	Short term benefits				Post-employment	Share-based payments	Performance based remuneration	Total
	Salary & fees US$	Other [i] US$	Non-monetary benefits US$	Bonuses US$	retirement benefits US$	[ii] US$	[iii] %	US$
Directors:								
Ami Shafran	33,221	-	-	-	-	-	-	33,221
David Furstenberg	33,221	-	-	-	-	-	-	33,221
Howard Digby	33,215	-	-	-	-	-	-	33,215
Joshua Landau	39,865	-	-	-	4,285	-	-	44,150
Peter Marks	-	-	-	-	-	-	-	-
Key management:								-
Yoav Amitai	179,813	15,041	14,844	-	26,550	52,757	18%	289,005
Roee Kashi	218,006	15,122	8,319	-	30,418	125,337	32%	397,202
Total	**537,341**	**30,163**	**23,163**	**-**	**61,253**	**178,094**		**830,014**

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31 December 2022	Short term benefits				Post-employment	Share-based payments	Performance based remuneration	Total
	Salary & fees US$	Other[i] US$	Non-monetary benefits US$	Bonuses US$	retirement benefits US$	[ii] US$	[iii] %	US$
Directors:								
Ami Shafran	34,927	-	-	-	-	656	2%	35,583
David Furstenberg	34,927	-	-	-	-	1,639	4%	36,566
Howard Digby	34,923	-	-	-	-	-	-	34,923
Joshua Landau	41,914	-	-	-	4,296	-	-	46,210
Key management:								-
Yoav Amitai	179,380	16,003	14,951	-	26,485	138,887	37%	375,706
Roee Kashi	215,212	27,869	10,310	77,390	31,631	51,913	31%	414,325
Total	**541,283**	**43,872**	**25,261**	**77,390**	**62,412**	**193,095**		**943,313**

[i] Israeli social benefits.
[ii] Share-based payment expense is recorded pro-rata over the vesting period. Refer to Section 6 Additional disclosures relating to equity instruments for further information.
[iii] Performance based remuneration relates to options issued as share based payments and bonuses.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed Remuneration		STI - cash bonus		LTI - Options	
Name	31 December 2023	31 December 2022	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Directors:						
Ami Shafran	100%	98%	-	-	-	2%
David Furstenberg	100%	96%	-	-	-	4%
Howard Digby	100%	100%	-	-	-	-
Joshua Landau	100%	100%	-	-	-	-
Other Key Management Personnel:						
Yoav Amitai	82%	63%	-	-	18%	37%
Roee Kashi	68%	69%	-	18%	32%	13%

There were no bonuses during the year ended 31 December 2023.

The US$77,390 cash bonus paid to Roee Kashi on 2 June 2022 was at the discretion of the CEO in recognition of Roee's significant contributions to the Group, previously in his role as Vice President R&D and most recently in his current role as Chief Technology Officer. There were no specific performance criteria applied in determining the bonus value, rather the bonus has been awarded in recognition of Roee's achievements throughout his 13-year service period.

6. Additional disclosures relating to equity instruments

KMP Shareholding

There were no shares issued as KMP remuneration during the 31 December 2023 financial year (31 December 2022: nil).

There were no options issued as KMP remuneration during the 31 December 2023 financial year (31 December 2022: 5,033,452).

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

	Balance at the start of the year	Shares purchased on market during the year	Options exercised and converted to shares during the year	Shares sold during the year	Balance at the end of the year
Directors:					
Ami Shafran	61,440	70,630	-	-	132,070
David Furstenberg	61,440	70,631	-	-	132,071
Howard Digby	2,117,004	54,092	-	-	2,171,096
Joshua Landau	80,000	20,000	-	-	100,000
Key Management:					
Yoav Amitai	-	-	-	-	-
Roee Kashi	6,317,454	-	-	-	6,317,454
Total	**8,637,338**	**215,353**	**-**	**-**	**8,852,691**

KMP Option holdings

Options awarded, vested and lapsed during the year

The tables below disclose the number of share options granted, vested or lapsed during the year.

Share options do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date.

The number of options over ordinary shares held by each KMP of the Group (and/or their related party) during the financial year is as follows:

	Balance at the start of the year	Granted during the year	Exercised during the year	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Directors:					
Ami Shafran	-	-	-	-	-
David Furstenberg	-	-	-	-	-
Howard Digby	128,085	-	-	(128,085)	-
Joshua Landau	-	-	-	-	-
Key management:					
Yoav Amitai	3,798,452	-	-	(15,000)	3,783,452
Roee Kashi	1,550,000	-	-	-	1,550,000
Total	**5,476,537**	**-**	**-**	**(143,085)**	**5,333,452**

There were no options exercised by KMP during the year ended 31 December 2023.

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

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	Vested and exercisable	Unvested and un-exercisable	Balance at the end of the year
Options over ordinary shares			
Key management:			
Yoav Amitai	527,619	3,255,833	3,783,452
Roee Kashi	544,795	1,005,205	1,550,000
Total	**1,072,414**	**4,261,038**	**5,333,452**

Terms and conditions of the share-based payment arrangements
The terms and conditions of each grant of options affecting remuneration in the current or a future reporting are as follows:

Option class	Number granted	Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date [(v)]	Vested %
ESOP Options	100,000	24/06/2019	(i)	23/06/2024	A$0.35	US$0.18	100.00%
ESOP Options	200,000	10/05/2020	(ii)	23/04/2025	A$0.28	US$0.22	91.67%
ESOP Options	3,583,452	26/05/2022	(iii)	26/05/2027	A$0.48	US$0.17	9.38%
ESOP Options	1,450,000	30/08/2022	(iv)	30/08/2027	A$0.37	US$0.18	31.25%

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(i) 50% of the 100,000 options vested on 21 June 2021, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. A total of 12,500 options vested during the year ended 31 December 2023, resulting in the options becoming fully vested during the year. There are no performance milestones applicable to the ESOP Options.

(ii) 50% of the 200,000 options vested on 23 April 2021, with the remaining 50% vesting over a period of 3 years quarterly. A total of 33,340 options vested during the year ended 31 December 2023. There are no performance milestones applicable to the ESOP Options.

(iii) The 3,583,452 ESOP options were issued in 4 tranches of 895,863 Options each 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 (not achived).
- *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.

At 31 December 2023 the likelihood of achieving the Tranche 1 Performance Milestone and the Tranche 4 service condition has been assessed at nil and 100% respectfully (2022:100% likelihood for both Tranche 1 and Tranche 4. The likelihood of achieving the Tranche 2 and 3 Performance Milestones is built into the Monte Carlo Simulation model.

(iv) 25% of the 1,450,000 options vested on 30 August 2023, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. 453,125 options vested during the year ended 31 December 2023 . There are no performance milestones applicable to the ESOP Options.

(v) Except as otherwise noted above, the value per option at grant date has been determined using a Black Scholes option pricing model. Where noted the options have been valued using Monte Carlo simulation models. Share-based payment expense is recorded pro-rata over the vesting period.

7. Loans to key management personnel (KMP) and their related parties
There are no loans between the Group and key management personnel.

8. Other transactions and balance with KMP and their related parties
There were no other transactions with KMP or their related parties at 31 December 2023 (2022: none).

At 31 December 2023 the following balances are recorded in relation to KMP or their related parties:

Key Management Personnel and their Related Party	Nature of transaction	Payable balance US$
Ami Shafran	Director and consulting fees	6,738
David Furstenberg	Director and consulting fees	6,738
Yoav Amitai	Salary and salary related expenses	18,653
Roee Kashi	Salary and salary related expenses	23,348

9. Voting of shareholders at last year's annual general meeting
The Company received 99.75% “Yes” votes cast on its Remuneration Report for the 31 December 2023 financial year. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

REMUNERATION REPORT (END)

This concludes the remuneration report, which has been audited and signed in accordance with a resolution of the Board of Directors.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Mr David Furstenberg
Executive Director

21 March 2024

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Elsight Limited for the year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 21 March 2024

TUTU PHONG
Partner

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RSM Australia Partners ABN 36 965 185 036

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	Note	31 December 2023 US$	31 December 2022 US$
Revenue from contracts with customers	4	1,541,168	823,241
Cost of sales		(733,644)	(387,159)
Gross profit		807,524	436,082
Other income	5	202,627	217,980
Selling, general and administrative expenses	6	(3,641,306)	(4,451,842)
Net share-based payments expense	25	(400,949)	(496,196)
Loss before finance expense		(3,032,104)	(4,293,976)
Net finance expenses	7	(651,428)	(12,457)
Loss before income tax expense		(3,683,532)	(4,306,433)
Income tax expense	9	-	-
Loss after income tax expense for the year attributable to the owners of Elsight Limited		**(3,683,532)**	**(4,306,433)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation, net of tax	24	(244,250)	(264,849)
Other comprehensive loss for the year, net of tax		(244,250)	(264,849)
Total comprehensive loss for the year attributable to the owners of Elsight Limited		**(3,927,782)**	**(4,571,282)**
		Cents	**Cents**
Loss per share attributable to owners of the Company attributable to the owners of Elsight Limited			
Basic loss per share	8	(2.45)	(2.97)
Diluted loss per share	8	(2.45)	(2.97)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Elsight Limited
Annual Report
Consolidated statement of financial position
As at 31 December 2023

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	Note	31 December 2023 US$	31 December 2022 US$
Assets			
Current assets			
Cash and cash equivalents	12	2,702,593	5,194,794
Trade and other receivables	14	661,753	584,200
Inventory	15	689,267	951,942
Total current assets		**4,053,613**	**6,730,936**
Non-current assets			
Plant and equipment	16	107,092	140,114
Right-of-use assets	17	242,262	112,639
Intangible assets		33,590	21,319
Total non-current assets		**382,944**	**274,072**
Total assets		**4,436,557**	**7,005,008**
Liabilities			
Current liabilities			
Trade and other payables	18	529,116	736,655
Contract liabilities	19	196,664	117,897
Convertible notes	21	4,983,627	-
Lease liabilities	20	179,123	87,089
Total current liabilities		**5,888,530**	**941,641**
Non-current liabilities			
Convertible notes	21	93,349	4,138,048
Lease liabilities	20	68,891	28,795
Provisions	22	46,762	47,028
Total non-current liabilities		**209,002**	**4,213,871**
Total liabilities		**6,097,532**	**5,155,512**
Net (liabilities)/assets		**(1,660,975)**	**1,849,496**
Equity			
Issued capital	23	23,750,494	23,749,095
Reserves	24	666,567	1,511,909
Accumulated losses		(26,078,036)	(23,411,508)
Total (deficiency)/ equity		**(1,660,975)**	**1,849,496**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

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	Issued capital US$	Share-based payment Reserve US$	Foreign Exchange Reserve US$	Predecessor Accounting Reserve US$	Equity reserve US$	Accumulated losses US$	Total equity US$
Balance at 1 January 2022	**21,375,191**	**3,384,301**	**(497,190)**	**(296,796)**	**-**	**(21,133,241)**	**2,832,265**
Loss after income tax expense for the year	-	-	-	-	-	(4,306,433)	(4,306,433)
Other comprehensive loss for the year, net of tax	-	-	(264,849)	-	-	-	(264,849)
Total comprehensive loss for the year	-	-	(264,849)	-	-	(4,306,433)	(4,571,282)
Transactions with owners in their capacity as owners:							
Issue of Shares, net of transaction costs **(note 23)**	2,373,904	-	-	-	-	-	2,373,904
Share-based payments **(note 25)**	-	496,196	-	-	-	-	496,196
Exercise, expiry and cancellation of options	-	(2,028,166)	-	-	-	2,028,166	-
Financial instruments recognised in equity	-	-	-	-	718,413	-	718,413
Balance at 31 December 2022	**23,749,095**	**1,852,331**	**(762,039)**	**(296,796)**	**718,413**	**(23,411,508)**	**1,849,496**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

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	Issued capital US$	Share-based payment Reserve US$	Foreign Exchange Reserve US$	Predecessor Accounting Reserve US$	Equity reserve US$	Accumulated losses US$	Total deficiency in equity US$
Balance at 1 January 2023	**23,749,095**	**1,852,331**	**(762,039)**	**(296,796)**	**718,413**	**(23,411,508)**	**1,849,496**
Loss after income tax expense for the year	-	-	-	-	-	(3,683,532)	(3,683,532)
Other comprehensive loss for the year, net of tax	-	-	(244,250)	-	-	-	(244,250)
Total comprehensive loss for the year	-	-	(244,250)	-	-	(3,683,532)	(3,927,782)
Transactions with owners in their capacity as owners:							
Issue of Shares, net of transaction costs **(note 23)**	1,399	-	-	-	-	-	1,399
Share-based payments **(note 25)**	-	400,949	-	-	-	-	400,949
Exercise, expiry and cancellation of options	-	(1,017,004)	-	-	-	1,017,004	-
Financial instruments recognised in equity **(note 21)**	-	-	-	-	14,963	-	14,963
Balance at 31 December 2023	**23,750,494**	**1,236,276**	**(1,006,289)**	**(296,796)**	**733,376**	**(26,078,036)**	**(1,660,975)**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Elsight Limited
Annual Report
Consolidated statement of cash flows
For the year ended 31 December 2023

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	Note	31 December 2023 US$	31 December 2022 US$
Cash flows from operating activities			
Receipts from customers		1,338,606	965,095
Payments to suppliers and employees		(3,891,150)	(4,623,972)
Interest received		184,804	1,804
Interest paid		(14,718)	(14,227)
Proceeds from government grants		190,135	-
Net cash (used in) operating activities	13	**(2,192,323)**	**(3,671,300)**
Cash flows from investing activities			
Purchase of plant and equipment		(8,079)	(3,532)
Purchase of intangible assets		(36,000)	-
Net cash (used in) investing activities		**(44,079)**	**(3,532)**
Cash flows from financing activities			
Proceeds from convertible notes		69,685	4,810,613
Net proceeds from the issue of shares		1,231	2,376,051
Principal elements of lease payments		(190,338)	(224,147)
Net cash (used in)/ from financing activities		**(119,422)**	**6,962,517**
Net (decrease)/increase in cash and cash equivalents		**(2,355,824)**	**3,287,685**
Cash and cash equivalents at the beginning of the financial year		5,194,794	1,990,057
Effects of exchange rate changes on cash and cash equivalents		(136,377)	(82,948)
Cash and cash equivalents at the end of the financial year	12	**2,702,593**	**5,194,794**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

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Note 1. Material Accounting Policies

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entities (also referred to as **Group**). Elsight Limited is a company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity.

The financial statements were issued by the board of directors on 21 March 2024 by the directors of the Company.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Statement of compliance
These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (**AASBs**) (including Australian interpretations) adopted by the Australian Accounting Standard Board (**AASB**) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events, and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

b) Basis of measurement and reporting conventions
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.

c) Going concern
The financial statements are prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As disclosed in the financial statements, the Group recorded a net loss of US$3,683,532 and had net cash outflows from operating activities of US$2,192,323. As at the reporting date, the Group had net current liabilities of US$1,834,917.

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$2,702,593 at 31 December 2023;
- The 25,149,500 convertible notes maturing 30 December 2024 are expected to be converted to equity, refinanced to extend their maturity date, or be refinanced via other means;
- 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 2023. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies. No retrospective change in accounting policy of material reclassification has occurred during the year.

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Note 1. Material Accounting Policies (continued)

e) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (**OCI**) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investments retained
- Recognises any surplus or deficit in profit and loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

f) Predecessor accounting

Business combinations involving entities under common control are accounted for using the predecessor accounting method. Under this method;

- carrying values are not restated in the accounts of the acquiring entity, rather prior book values are maintained. As a result no fair value adjustments are recorded on the acquisition; and
- the carrying value of net assets or liabilities acquired is recorded as a separate element of equity.

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Note 1. Material Accounting Policies (continued)

g) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States dollars which is the Group's presentational currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognized other comprehensive Income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of operations with functional currencies other than United States dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

h) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (**ATO**).

Receivable and payables are stated inclusive of the amount of GST receivable or payable. The net amount of the GST recoverable from, or payable to, the ATO is included with other receivables and payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

i) Intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available, and
- the expenditure attributable to the product during its development can be reliably measured.

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Note 1. Material Accounting Policies (continued)

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over a period of 3 – 7 years.

Research expenditure and development expenditure that do not meet the criteria in set out above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Note 2. New accounting standards for application in future periods

There are no Australian accounting standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2023 which are expected to have a material impact on the Group in future reporting periods.

Note 3. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the consolidated financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

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 14**.

Convertible notes
Convertible notes on issue have been determined to contain a debt and equity component and are therefore accounted for as a compound financial instrument with the debt component recognised at fair value on inception then at amortised cost through profit and loss while the equity component has been measured at fair value and recorded in reserves. In assessing the terms of the convertible notes the Group has considered the conversion terms contained in the contractual agreement. Key inputs used to determine the allocation between debt and equity are as follows:

Face value per note	A$0.30
Number of notes on issue at 31 December 2023	25,583,333
Coupon rate	8%
Time to maturity	2 years from the date of issue
Interest	Capitalised for settlement on maturity
Discount rate	17%

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Note 4. Revenue from contracts with customers

	31 December 2023 US$	31 December 2022 US$
Revenue recognised at a point in time:		
- Sale of physical goods	1,003,865	665,309
- Data usage	305,467	76,262
Revenue recognised over a period of time:		
- Service level agreements and other services	193,535	60,234
- Halo as a service	38,301	21,436
Total revenue	**1,541,168**	**823,241**

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

- Contract liabilities (**note 19**)	76,608	117,897

There were no significant movements in contract assets or liabilities during the year.

Accounting policy for revenue

The Group revenues consist of the following elements:

- physical products which are sent to the customer, where revenue is recognised upon shipment or arrival of goods, dependent on the terms that have been agreed with the customer;
- data usage, which is recognised over the usage period;
- installation fees, which are recognised upon the completion of product installation; and
- other revenue including cloud services fees which are recognised over the service period; software license fees which are recognised over the license period; and service level agreements which are recognised over the agreement period.

In relation to cloud services, software license and service level agreements, the Group recognises a contract liability where payments received exceed the services rendered.

The Group has no material contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Revenue is measured at the transaction price allocated to the performance condition. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

Note 5. Other income

	31 December 2023 US$	31 December 2022 US$
Net foreign exchange gain	67,745	-
Recovery of bad debts in form of inventory	-	217,980
Israeli Innovation Authority government Grant Income	134,882	-
Total Other income	202,627	217,980

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Note 5. Other income (continued)

Accounting policy for other income

Grant income from Israeli Innovation Authority is recognised when the Group recognises the related expenses for which the grants are intended to compensate.

Note 6. Selling, general and administrative expenses

	31 December 2023 US$	31 December 2022 US$
Research	1,446,234	1,683,450
Sales, marketing and exhibitions	709,054	877,830
Salaries and related expenses	486,076	661,287
Professional services	361,663	447,855
Office expenses	139,304	211,792
(Reversal of bad debts)/bad debts	-	(15,151)
Amortisation of right of use asset	192,878	221,386
Depreciation of plant and equipment and amortisation of intangible asset	59,766	110,162
Travel	45,431	71,231
Exchange rate differences	-	(19,810)
Other expenses	200,900	201,810
Total selling, general and administrative expenses	3,641,306	4,451,842

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

Note 7. Finance expenses/(income)

	31 December 2023 US$	31 December 2022 US$
Interest income	(184,805)	(1,804)
Accrued and effective interest on convertible notes (**note 21**)	821,315	-
Interest on borrowings and bank fees	7,275	7,095
Implied interest on leases	7,643	7,166
Total net finance expenses	651,428	12,457

Note 8. Loss per share

	31 December 2023 US$	31 December 2022 US$
Loss after income tax attributable to the owners of Elsight Limited	(3,683,532)	(4,306,433)

Note 8. Loss per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	150,320,019	144,876,769
Weighted average number of ordinary shares used in calculating diluted earnings per share	150,320,019	144,876,769

	Cents	Cents
Basic loss per share	(2.45)	(2.97)
Diluted loss per share	(2.45)	(2.97)

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Elsight Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 9. Income tax

The financial accounts for the year ended 31 December 2023 comprise the results of Elsight Australia and El-Sight Israel. The legal parent is incorporated and domiciled in Australia where the applicable tax rate is 30% (31 December 2022: 30%). The applicable tax rate in Israel is 23% (31 December 2022: 23%).

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Note 9. Income tax (continued)

	31 December 2023 US$	31 December 2022 US$
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
Aggregate income tax expense	-	-
Numerical reconciliation of income tax and tax at the statutory rate		
Loss before income tax expense	(3,683,532)	(4,306,433)
Tax at the statutory tax rate of 27.37% (2022: 25.49%)	(1,008,071)	(1,097,710)
Non-deductible items		
Non-deductible expenditure	583,497	268,872
Deferred tax assets not recognised	424,574	828,838
	-	-
Deferred tax assets		
Investments and loans	5,677,154	5,272,447
Accruals	5,980	5,194
Provisions	54,864	53,994
Tax losses	5,066,111	4,257,943
Less deferred tax assets not recognised	(10,804,109)	(9,589,578)
Deferred tax liabilities		
Other	-	-
Net deferred tax liabilities	-	-
Income tax expense	-	-

Carry forward losses

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 31 December 2023 because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

Accounting Policy for income tax

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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Note 9. Income tax (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Note 10. Related party transactions

Subsidiaries
Interests in subsidiaries are set out in **note 29**.

a) Key Management Personnel Compensation
The totals of remuneration paid to KMP during the year are as follows:

	31 December 2023 US$	31 December 2022 US$
Short-term salary and fees	537,341	541,283
Retirement benefits	61,253	62,412
Non-monetary benefits	23,163	25,261
Bonuses	-	77,390
Other	30,163	43,872
Share based payments	178,094	193,095
Total KMP Compensation	830,014	943,313

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Note 10. Related party transactions (continued)

b) Other related party transactions

There were no other transactions with related parties during the year ended 31 December 2023 (31 December 2022: Nil).

As at 31 December 2023 the following balances are recorded in relation to KMP or their related parties:

Key management personnel or their related party	Nature of transaction	Prepayment balance 31 December 2023 US$	Prepayment balance 31 December 2022 US$	Payable balance 31 December 2023 US$	Payable balance 31 December 2022 US$
Ami Shafran	Director fees	-	5,093	6,738	-
David Furstenberg	Director fees	-	5,093	6,738	-
Yoav Amitai	Salary and related expenses	-	-	18,653	8,383
Roee Kashi	Salary and related expenses	-	-	23,348	8,558

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

There were no loans to or from related parties at the current and previous reporting date or during the financial year.

Note 11. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	31 December 2023 US$	31 December 2022 US$
Auditor remuneration		
- Auditing and reviewing the financial reports (RSM) - Australia	31,560	-
- Auditing and reviewing the financial reports (BDO) - Australia	2,692	40,167
- Auditing and reviewing the financial reports (BDO) - Israel	27,000	25,000
	61,252	65,167

Note 12. Cash and cash equivalents

	31 December 2023 US$	31 December 2022 US$
CURRENT		
Cash at bank - unrestricted	2,666,722	5,155,378
Cash at bank - restricted	35,871	39,416
Total cash and cash equivalents in the consolidated statement of cash flows	2,702,593	5,194,794

Restricted cash relates to bank deposits in place as security guarantees.

The Group's exposure to the risks associated with cash are disclosed in **note 27**.

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Note 12. Cash and cash equivalents (continued)

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less.

Note 13. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	31 December 2023 US$	31 December 2022 US$
Loss after income tax expense for the year	(3,683,532)	(4,306,433)
Non-cash flows in loss after income tax:		
Share-based payments	400,949	496,196
Foreign exchange differences	(54,932)	-
Amortisation of right of use lease asset	192,878	221,386
Depreciation of plant and equipment and amortisation of intangible assets	59,766	110,162
Interest expense	821,315	-
Change in assets and liabilities:		
Increase in trade and other receivables	(311,889)	(23,104)
(Increase)/decrease in inventory	230,533	(207,169)
Increase/(decrease) in trade and other payables	70,563	(53,957)
Increase in provisions	1,116	13,547
Increase in contract liabilities	80,910	78,072
Net cash used in operating activities	(2,192,323)	(3,671,300)

Non-cash investing and financing activities

There were no material non-cash investing and financing activities during the year ended 31 December 2023 or 31 December 2022.

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Note 14. Trade and other receivables

	31 December 2023 US$	31 December 2022 US$
Current assets		
Trade receivables	726,209	376,495
Allowance for doubtful accounts	(171,586)	(176,865)
	554,623	199,630
Prepaid expenses	87,947	114,313
Short term deposits	11,780	15,671
Convertible note receivables	-	246,548
	99,727	376,532
GST receivable	7,403	8,038
	661,753	584,200

All amounts are short-term. The net carrying value of trade and other receivables is considered a reasonable approximation of fair value. The Group's exposure to the risks associated with trade and other receivables is disclosed in **Note 27**.

As disclosed at **note 21**, the Group issued 25,149,500 convertible notes on 30 December 2022. At 31 December 2022, the Group has recorded a receivable of US$246,548 in relation to convertible notes proceeds held on trust by the Broker for settlement of costs which have been accrued within trade and other payables at 31 December 2022. These amounts were settled net during the year ended 31 December 2023.

Accounting policy for trade and other receivables
Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 45 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional which is considered to be fair value; none of the Group's trade receivables contain a financing component. The Group holds the trade receivables with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the Group's past history, existing market conditions and forward-looking estimates at the end of each reporting period.

Note 15. Inventory

	31 December 2023 US$	31 December 2022 US$
Inventory	689,267	951,942

From 31 December 2021 to 31 December 2022 the Group's inventory balance 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 31 December 2022.

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Note 15. Inventory (continued)

The annual expense on written down of inventory to net realisable value amounted to US$8,281 (31 December 2022: US$7,353).

Inventories recognised as an expense during the year ended 31 December 2023 amounted to US$411,032 (31 December 2022: US$220,495).

Accounting policy for inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average principle and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Note 16. Plant and equipment

	31 December 2023 US$	31 December 2022 US$
Cost	439,786	442,633
Accumulated depreciation	(332,694)	(302,519)
Net carrying amount	107,092	140,114

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Computers US$	Motor vehicles US$	Office furniture and equipment US$	Installation and leasehold improvements US$	Total US$
Balance at 1 January 2022	18,231	15,954	63,473	104,940	202,598
Additions	3,531	-	-	-	3,531
Foreign currency translation adjustment	(8,982)	(7,821)	(10,733)	(14,770)	(42,306)
Depreciation expense	(2,281)	(1,854)	(7,377)	(12,197)	(23,709)
Balance at 31 December 2022	**10,499**	**6,279**	**45,363**	**77,973**	**140,114**
Additions	10,166	-	-	-	10,166
Foreign currency translation adjustment	(148)	(187)	(1,350)	(2,321)	(4,006)
Depreciation expense	(9,747)	(6,092)	(9,012)	(14,331)	(39,182)
Balance at 31 December 2023	**10,770**	**-**	**35,001**	**61,321**	**107,092**

Accounting policy for property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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Note 16. Plant and equipment (continued)

Accounting policy for depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives for the current and comparative periods are as follows:

- Computers – 3 years
- Furniture and equipment – 7-17 years
- Motor vehicles – 7 years

Leasehold improvements are depreciated over the shorter of the lease period or the useful life of the leasehold improvement.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

Note 17. Right-of-use assets

	31 December 2023 US$	31 December 2022 US$
Motor vehicles	203,005	231,438
Less: Accumulated amortisation	(133,856)	(150,721)
	69,149	80,717
Office space at cost	530,963	261,777
Less: Accumulated amortisation	(357,850)	(229,855)
	173,113	31,922
	242,262	112,639

The right of use assets recognised at 31 December 2023 and 31 December 2022 relate to motor vehicle leases and office space.

Accounting policy for right-of-use assets

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities included the net present value of fixed lease payments.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

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Note 17. Right-of-use assets (continued)

The Group's leasing activities and how these are accounted for
The Group leases an office in Or Yehuda and various motor vehicles. Rental contracts are typically made for fixed period of 1 – 3 years but may have extension options. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowings purposes.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in the financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options
Extension and termination options are included in the Group's office lease, exercisable at the option of the Group.

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For the Group's leases, the following factors are normally the most relevant:

- If there are significant penalty payments to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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Note 17. Right-of-use assets (continued)

There are no extension options in office and vehicles leases that have not been included in the lease liability because the Group expects to exercise the extension options.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. There was no impact of revising lease terms in current or previous financial year.

Note 18. Trade and other payables

	31 December 2023 US$	31 December 2022 US$
Current		
Trade payables	108,941	64,332
Other payables and accrued expenses	420,175	672,323
	529,116	736,655

All amounts are short-term. The carrying values of trade payables and other payables are considered to approximate fair value. The Group's exposure to the risks associated with trade and other payables are disclosed in **note 27**.

Accounting policy for trade and other payables
Liabilities for trade creditors and other amounts carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest, when charged by the lender, is recognised as an expense on an accruals basis.

Note 19. Contract liabilities

	31 December 2023 US$	31 December 2022 US$
Current		
Contract liabilities - deferred revenue	76,608	117,897
Contract liabilities - Israel Innovation Authority government grant	120,056	-
	196,664	117,897

Accounting policy for contract liabilities - revenue
Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Accounting policy for contract liabilities – Israel Innovation Authority government grant
Contract liabilities represent grant proceeds received in excess of expenses incurred for which the grants are intended to compensate.

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Note 20. Lease liabilities

	31 December 2023 US$	31 December 2022 US$
Current	179,123	87,089
Non-current	68,891	28,795
	248,014	115,884

The lease liabilities relate to the Group's office lease and motor vehicle leases. Lease liabilities have been measured at the present value of the lease payments, discounted using the Group's incremental borrowing rate in effect on lease execution date. Incremental borrowing rates applied range from 3.09% – 3.23%.

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 21. Convertible notes

	31 December 2023 US$	31 December 2022 US$
Current		
Convertible notes	4,983,627	-
Non-current		
Convertible notes	93,349	4,138,048
Net carrying amount of convertible notes	5,076,976	4,138,048

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Note 21. Convertible notes (continued)

On 30 December 2022, the Group issued 25,149,500 convertible notes with a face value of A$0.30 each, for total proceeds of US$5,123,481. On 5 April 2023 the Group issued a further 433,833 convertible notes, bringing the total number of convertible notes on issue at 31 December 2023 to 25,583,333.

The balance of US$4,983,627 related to the 25,149,500 convertible notes maturing on 30 December 2024 is classified as current. The balance of US$93,349 related to the 433,833 convertible notes maturing on 5 April 2025 is non-current.

The notes are convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable on the above maturity dates. The conversion rate is 1 ordinary share for each note held at a conversion price of A$0.30, subject to certain anti-dilution clauses that may alter the conversion ratio in certain circumstances.

The notes bear interest at 8%, with interest capitalised for payment on the earlier of redemption or conversion.

The convertible notes are secured over all assets of the Company and its subsidiary.

A reconciliation of the convertible note facility at inception is as follows:

	US$
Face value of convertible notes	5,123,481
Transaction costs	(227,522)
Conversion option recognised in equity, net	(757,911)
Value recognised at 31 December 2022	4,138,048
Face value of 433,833 convertible notes	87,912
Transaction costs adjustment	13,078
Conversion option recognised in equity, net	(14,963)
Accrued interest	405,644
Effective interest	415,671
Foreign currency translation adjustment	31,586
Value recognised at 31 December 2023	5,076,976

The fair value of the liability recognised on inception has been determined based on the net present value of convertible note contractual cashflows using a discount rate of 17%. The difference between the fair value of the liability component and the face value of convertible notes has been recognised in equity on inception and will be recorded to profit or loss as effective interest over the life of the convertible notes. Transaction costs incurred in relation to the convertible note have been recognised pro-rata against the liability and equity components.

Accounting policy for convertible notes

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

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Note 22. Provisions

	31 December 2023 US$	31 December 2022 US$
Non-current liabilities		
Accrued severance pay	49,791	50,185
Severance pay fund	(3,029)	(3,157)
	46,762	47,028

Movements in provisions
Movements in each class of provision during the current financial year and previous financial year are set out below:

	31 December 2023 US$	31 December 2022 US$
Carrying amount at the start of the year	47,028	78,427
Decrease in provision	(395)	(49,124)
Severance pay fund utilised	94	17,725
Carrying amount at the end of the year	46,727	47,028

Accounting policy for provisions
Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Post-employment benefits
The Company has a post-employment benefit plan in place in accordance with its obligations under Israeli employment law. Under Israeli employment law, in the event of termination of an employee, the Group is obligated to pay the employee their last monthly salary multiplied by the number of years the employee was employed. The value of this severance pay obligation is recorded net of accumulated severance fund benefits as a liability for employees' severance benefits in the Group's statement of financial position.

Short term employee benefits
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

Note 23. Issued capital

	31 December 2023 Shares	31 December 2022 Shares	31 December 2023 US$	31 December 2022 US$
Share capital	150,324,581	150,319,581	23,750,494	23,749,095

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Note 23. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	US$
Balance	1 January 2022	133,470,748		21,375,191
Issue of shares on conversion of options	24 January 2022	54,166	US$0.20	10,881
Issue of shares on conversion of options	22 April 2022	13,040,720	US$0.15	1,933,078
Issue of shares on conversion of options	23 May 2022	3,687,280	US$0.14	519,162
Issue of shares on conversion of options	3 August 2022	66,667	US$0.20	12,971
Cost of capital raising		-		(102,188)
Balance	31 December 2022	150,319,581		23,749,095
Issue of shares on conversion of options	30 November 2023	5,000	US$0.28	1,399
Balance	31 December 2023	150,324,581		23,750,494

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.

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Accounting policy for equity
Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Ordinary shares are classified as equity.

Note 24. Reserves

	31 December 2023 US$	31 December 2022 US$
Share Based Payment Reserve	1,236,276	1,852,331
Foreign Exchange Reserve	(1,006,289)	(762,039)
Predecessor Accounting Reserve	(296,796)	(296,796)
Convertible note reserve	733,376	718,413
	666,567	1,511,909

(a) Share Based Payment Reserve	31 December 2023 US$	31 December 2022 US$
9,952,452 Options (31 December 2022: 34,541,104 Options)	1,236,276	1,852,331

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Note 24. Reserves (continued)

(b) Movement in Share Based Payment Reserve

	No	US$
Opening balance at 1 January 2022	**46,571,819**	**3,384,301**
Expense of options issued in prior periods, prior to cancellations	-	313,303
Issue of ESOP options	200,000	10,792
Issue of ESOP options	300,000	15,379
Issue of ESOP options	3,583,452	135,029
Issue of ESOP options	3,222,000	110,128
Options exercised and converted to fully paid ordinary shares	(16,848,834)	(1,762,156)
Expiry of options	(574,000)	(211,739)
Vested options cancelled on termination of employment	(219,201)	(54,272)
Unvested options cancelled on termination of employment	(1,694,132)	(88,434)
Closing balance at 31 December 2022	**34,541,104**	**1,852,331**

	No	US$
Opening balance at 1 January 2023	**34,541,104**	**1,852,331**
Expense of options issued in prior periods, prior to cancellations	-	446,908
Issue of ESOP options	50,000	4,301
Issue of ESOP options	43,000	2,797
Options exercised and converted to fully paid ordinary shares	(5,000)	(883)
Expiry of options	(23,539,652)	(932,812)
Vested options cancelled on termination of employment	(468,500)	(83,309)
Unvested options cancelled on termination of employment	(668,500)	(53,057)
Closing balance at 31 December 2023	**9,952,452**	**1,236,276**

Share based payment options on issue at 31 December 2023 have a weighted average exercise price of AUD$0.42 (31 December 2022: AUD$0.74) and a weighted average remaining contractual life of 3.08 years (31 December 2022: 1.47 years).

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Equity-settled compensation
The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. The fair value of performance right options is determined using the satisfaction of certain performance criteria (Performance Milestones). The number of shares option and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The fair value is determined using Black Scholes and Monte Carlo simulation models.

	2023 US$	2022 US$
c) Foreign Exchange Reserve	(1,006,289)	(762,039)

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

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Note 24. Reserves (continued)

	2023 US$	2022 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.

	2023 US$	2022 US$
e) Equity Reserve	733,376	718,413

The equity reserve holds the equity component of the convertible notes and is not remeasured from inception. This value will remain in the reserve until the convertible notes are converted or repaid.

Note 25. Share-based payments

Options issued in Prior Periods
Options issued in prior periods that impact the year ended 31 December 2023 are as follows:

Description	Grant date	Exercise price	Expiry date	Options on issue at 31 December 2023	Vesting conditions	Net pro-rata income/(expense) at 31 December 2023
ESOP Options	24/06/2019	$0.35	23/06/2026	100,000	(i)	(227)
ESOP Options	10/05/2020	$0.28	23/04/2025	700,000	(ii)	(8,210)
ESOP Options	09/08/2020	$0.30	27/07/2025	75,000	(iii)	(2,703)
ESOP Options	02/02/2021	$0.43	01/02/2026	130,000	(iv)	845
ESOP Options	15/09/2021	$0.42	14/09/2026	577,000	(v)	(24,493)
ESOP Options	15/09/2021	$0.48	14/09/2026	1,100,000	(v)	(57,364)
ESOP Options	15/12/2021	$0.38	14/12/2026	50,000	(vi)	6,234
ESOP Options	15/12/2021	$0.44	14/12/2026	200,000	(vi)	(9,434)
ESOP Options	26/04/2022	$0.43	25/04/2027	200,000	(vii)	(10,319)
ESOP Options	26/04/2022	$0.49	25/04/2027	-	(viii)	5,978
ESOP Options	26/05/2022	$0.48	26/05/2027	3,583,452	(ix)	(51,574)
ESOP Options	30/08/2022	$0.37	30/08/2027	2,894,000	(x)	(242,584)
				9,609,452		(393,851)

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Note 25. Share-based payments (continued)

(i) 50% on 24 June 2021 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options became fully vested on 24 June 2023.
(ii) 50% on 23 April 2021 and an additional 4.17% at the end of each quarter of continuous service thereafter. The options will become fully vested on 27 July 2024.
(iii) 50% on 28 July 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options will become fully vested on 27 July 2024.
(iv) 50% on 2 February 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options will become fully vested on 1 February 2025.
(v) 25% on 15 September 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options will become fully vested on 15 September 2025.
(vi) 25% on 15 December 2022 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options will become fully vested on 26 April 2026.
(vii) 25% on 26 April 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options will become fully vested on 26 April 2026.
(viii)Options cancelled on termination of employment during the year ended 31 December 2023.
(ix) The options vest in 4 tranches of 895,863 Options, 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 (not achieved).
- 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

(x) 25% on 30 August 2023 and an additional 6.25% at the end of each quarter of continuous service thereafter. The options will become fully vested on 30 August 2026.

Share Based Payments Issued During the Year Ended 31 December 2023
During the year ended 31 December 2023 the Group recorded the following share based payments:

- The issue of 50,000 Employee Share Plan Options exercisable at A$0.37, on or before 18 July 2025 to an employee of the Group. The options vested on issue resulting in an expense of US$4,301 recorded at 31 December 2023. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued.
- The issue of 43,000 Employee Share Plan Options exercisable at A$0.37, on or before 18 January 2028 to an employee of the Group, exercisable after the satisfaction of the following vesting condition, 25% on 18 January 2024 and an additional 6.25% at the end of each quarter of continuous services thereafter, resulting in an expense of US$2,797 recorded at 31 December 2023. The Black Scholes option pricing model was used to determine the fair value of the unlisted options issued.

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

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Note 25. Share-based payments (continued)

Options	ESOP Options	ESOP Options
Option pricing model	Black Scholes	Black Scholes
Number of options	50,000	43,000
Grant date	18 Jan 2023	18 Jan 2023
Issue date	18 Jan 2023	18 Jan 2023
Exercise price	A$0.37	A$0.37
Expected volatility	70%	70%
Implied option life	2.5 years	5 years
Expected dividend yield	nil	nil
Risk free rate	3.43%	3.43%
Valuation per option A$	$0.13	$0.18
Exchange rate	$0.66	$0.66
Valuation per option US$	$0.09	$0.12
Total valuation US$	$4,301	$5,160

Share Based Payment Expense
Share based payment expense is comprised as follows:

	31 December 2023 US$
Expense of options issued in comparative and prior periods	495,277
Reversal of expense recognised in a prior period due to a change in the number of options expected to vest[1]	(101,426)
Issue of 50,000 ESOP options	4,301
Issue of 43,000 ESOP options	2,797
Total net expense recognised in profit or loss	**400,949**

[1]On 26 May 2022 CEO Yoav Amitai was granted 3,584,452 Employee Share Plan Options exercisable at A$0.48 on or before 26 May 2027, vesting in 4 tranches of 895,863, with each Tranche subject to the achievement of a Performance Milestone. The likelihood of achieving the Tranche 1 Performance Milestone has been reduced from 100% at 31 December 2022 to nil at 31 December 2023, resulting in a reversal of previously recognised share based payment expense of US$101,426 during the year ended 31 December 2023.

Accounting policy for share-based payments
Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using an appropriate valuation models. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

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Note 26. Operating segments

Segment Information
Identification of reportable segments
The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The Group's sole operating segment is consistent with the presentation of these consolidated financial statements.

For the year ended 31 December 2023, the Group's revenues have been derived from the following geographical locations:
- Israel – 43% (2022: 35%)
- United States of America – 34% (2022: 43%)
- Other foreign countries – 23% (2022: 23%)

For year ended 31 December 2023, the Group has three major customers contributing 19%, 11% and 9% of total revenues (31 December 2022: two major customers contributing 21% and 15%). All major customers are from the UAV sector, with two major customers located in the United States of America and one located in Israel.

Note 27. Financial instruments

Financial risk management policies
The Group's financial instruments consist mainly of deposits with banks, trade and other debtors and trade and other payables.

Specific Financial Risk Exposures and Management
The main risk the Group is exposed to through its financial instruments are market risk (including fair value and interest rate risk) and cash flow interest rate risk, credit risk and liquidity risk.

(a) Interest rate risk

From time to time the Group has significant interest bearing assets, but they are as a result of the timing of equity raising and capital expenditure rather than a reliance on interest income. The interest rate risk arises on the rise and fall of interest rates. The Group's income and operating cash flows are not expected to be materially exposed to changes in market interest rates in the future. The exposure to interest rates arises from the cash and cash equivalents balances.

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is not considered to be material.

(b) Credit risk
The maximum exposure to credit risk is limited to the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the consolidated financial statements.

Credit risk related to balances with banks and other financial institutions and trade and other receivables, and is managed by the Group in accordance with approved Board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings.

	Note	31 December 2023 US$	31 December 2022 US$
Cash and cash equivalents held in Australian banks - A+ Rated	12	64,423	4,895,093
Cash and cash equivalents held in Israel banks - A Rated	12	2,638,170	299,701
Trade and other receivables - no rating	14	661,753	584,200

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Note 27. Financial instruments (continued)

Impaired trade receivables

The Group assesses expected credit losses associated on a forward looking basis. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure or a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

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

	31 December 2023 US$	31 December 2022 US$
Impairment gains/(losses):		
- individually recovered/(impaired) receivables	-	7,613
- movement in provision for impairment	-	7,538
	-	15,151

As at 31 December 2023, trade receivables of US$141,476 (31 December 2022: US$19,139) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2023 US$	31 December 2022 US$
0 to 3 months overdue	5,338	-
3 to 6 months overdue	34,196	722
Over 6 months overdue	101,942	18,417
	141,476	19,139

(c) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities based on the actual rates at the reporting date excluding interest payments:

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Note 27. Financial instruments (continued)

31 December 2023	Interest rate %	Less than 6 months US$	6 - 12 months US$	1- 2 years US$	2 - 5 years US$	Over 5 years US$	Total contractual cash flow US$	Carrying amount US$
Financial liabilities at amortised cost								
Trade and other payable	-	529,116	-	-	-	-	529,116	529,116
Lease liabilities	3.15%	95,912	87,900	62,836	7,554	-	254,202	248,014
Borrowings	8.00%	-	5,989,053	103,312	-	-	6,092,365	5,076,976
		625,028	6,076,953	166,148	7,554	-	6,875,683	5,854,106

31 December 2022	Interest rate %	Less than 6 months US$	6 - 12 months US$	1 - 2 years US$	2 - 5 years US$	Over 5 years US$	Total contractual cash flow US$	Carrying amount US$
Financial liabilities at amortised cost								
Trade and other payable	-	736,655	-	-	-	-	736,655	736,655
Lease liabilities	3.20%	61,692	27,127	21,782	8,383	-	118,984	115,884
Borrowings	8.00%	-	-	5,976,028	-	-	5,976,028	4,138,048
		798,347	27,127	5,997,810	8,383	-	6,831,667	4,990,587

(d) Net fair value of financial assets and liabilities

Fair value estimation

Due to the short term nature of the receivables and payables the carrying value approximates fair value.

(e) Currency risk

The currency risk is the risk that the value of financial instruments will fluctuate due to change in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the New Israeli Shekel. Any reasonable fluctuation in exchange rates is not expected to have a material impact on either profit or equity.

Note 27. Financial instruments (continued)

	United States Dollar	
	31 December 2023 US$	31 December 2022 US$
Cash and cash equivalents	2,235,468	31,955
Trade and other receivables	385,750	120,798
Trade and other payables	(2,041)	(8,876)
Net exposure	2,619,177	143,877

Accounting policy for financial instruments

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on how the Group manages the financial assets and the contractual terms of the cash flows. At year end, all of the Group's financial assets have been classified as those to be measured at amortised cost.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment

The Group assesses expected credit losses associated on a forward-looking basis. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Note 28. Parent entity information

The following information of the legal parent Elsight Limited has been prepared in accordance with Australian Accounting Standards and Group accounting policies.

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Note 28. Parent entity information (continued)

Statement of financial position

	Parent	
	31 December 2023 US$	31 December 2022 US$
Total current assets	101,297	5,203,378
Total non-current assets	3,365,863	1,106,777
Total assets	**3,467,160**	**6,310,155**
Total current liabilities	5,034,787	322,611
Total non-current liabilities	93,349	4,138,048
Total liabilities	**5,128,136**	**4,460,659**
Net assets/(liabilities)	**(1,660,976)**	**1,849,496**
Equity		
Issued capital	23,744,345	23,742,945
Foreign Exchange Reserve	(2,442,536)	(2,386,760)
Share Based Payment Reserve	1,236,275	1,852,331
Convertible note reserve	733,376	718,411
Accumulated losses	(24,932,436)	(22,077,431)
Total equity/(deficiency)	**(1,660,976)**	**1,849,496**

Statement of profit or loss and other comprehensive income

	Parent	
	31 December 2023 US$	31 December 2022 US$
Loss after income tax	(3,872,008)	(3,267,271)
Other comprehensive loss for the year, net of tax	(55,775)	(1,304,011)
Total comprehensive loss	(3,927,783)	(4,571,282)

Guarantees entered into by Elsight Limited for the debts of its subsidiary
There are no guarantees entered into by Elsight Limited.

Contingent liabilities of Elsight Limited
There were no contingent liabilities as at 31 December 2023 (31 December 2022: Nil).

Commitments by Elsight Limited
There were no commitments as at 31 December 2023 (31 December 2022: Nil).

Note 29. Controlled entities

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

Note 29. Controlled entities (continued)

Name	Principal place of business / Country of incorporation	Ownership interest 31 December 2023 %	Ownership interest 31 December 2022 %
El-Sight Ltd	Israel	100%	100%
Elsight LLC	USA	100%	-

Elsight LLC was incorporated on 11 August 2023.

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

Note 30. Commitments

The Group has no commitments which are not recorded on the statement of financial position as at 31 December 2023.

Note 31. Contingent liabilities

The Group has obtained grant proceeds from the Israel Innovation Authority in relation to its Halo Beyond the Visual Line of Sight (BVLOS) project. In return, the Group is obligated to pay royalties amounting to 3% of future Halo revenues up to the total amount of the grant. Through the year ended 31 December 2023 total grant proceeds obtained amounted to US$188,135. The total grant is expected to be worth approximately US$450,000 (ILS 1,570,624). No repayments are required during the project period which concludes 31 December 2024. Repayments will commence from 1 January 2025 based on Halo revenue generated from that date forward, contingent upon the successful outcome of the Group's research and development programs and attainment of sales. The Group has no obligation to repay these grants if sales are not generated. If the project fails the Group has no obligation to repay any grant received. Repayments are linked to the exchange rate of the US dollar and bear interest at annual LIBOR rates.

The Group has no other known contingent liabilities as at 31 December 2023.

Note 32. Events after the reporting period

On 7 March 2024 the Group issued 201,522 Shares on the conversion of 183,333 convertible notes.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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In the Director's opinion:

1. The consolidated financial statements and notes are in accordance with the *Corporations Act 2001*, including:
   a) complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements, noting the matters documented in Note 1; and
   b) giving a true and fair view, the consolidated entity's financial position as at 31 December 2023 and of its performance for the year ended on that date.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. This declaration has been made after receiving the declaration required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2023.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to section 295(5)(a) and is signed for and on behalf of the Directors by:

Mr David Furstenberg
Executive Director

21 March 2024

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELSIGHT LIMITED

Opinion

We have audited the financial report of Elsight Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the 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 (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
Going Concern Refer to Note 1 in the financial statements	
The Group recorded a net loss of $3,683,532 and had net cash outflows from operating activities of $2,192,323. As at the reporting date, the Group had net current liabilities of $1,834,917. The directors' have prepared the financial report on a going concern basis based on a cash flow forecast which considers the factors disclosed in Note 1. We determined this assessment of going concern to be a key audit matter due to the significant judgements involved in preparing the cash flow forecast.	Our audit procedures included: • Assessing and discussing with management the reasonableness of the Group's cash flow forecast; • Checking the mathematical accuracy of management's cash flow forecast; • Critically assessing the directors' reasons on why they believe it is appropriate to prepare the financial report on a going concern basis; and • Assessing the adequacy of disclosures in the financial report.
Revenue from Contracts with Customers Refer to Note 4 in the financial statements	
Revenue from contracts with customers for the year ended 31 December 2023 was $1,541,168. The primary revenue source is sale of physical goods to customers. Revenue was identified as a key audit matter due to: • The balance is material to the Group, and there are risks associated with management judgements, including the identification of contracts and performance obligations, determination of the transaction price and the timing of revenue recognition; and • Revenue recognition is a presumed fraud risk under the Australian Auditing Standards.	Our audit procedures included: • Assessing whether the Group's revenue recognition accounting policies are in accordance with Australian Accounting Standards; • Obtaining a detailed understanding of each of the revenue streams and the process for determining and recognising revenue; • On a sample basis, substantively testing revenue recognised to supporting documentation; • Substantively testing a sample of revenue transactions before and after the reporting date to assess whether revenue is recognised in the correct financial period; and • Assessing the disclosures in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2023, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 31 December 2023.

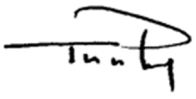
In our opinion, the Remuneration Report of Elsight Limited, for the year ended 31 December 2023, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS



Perth, WA
Dated: 21 March 2024

TUTU PHONG
Partner

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ADDITIONAL ASX INFORMATION

The shareholder information set out below was applicable as at 21 March 2024.

As at 21 March 2024 there were 150,526,103 ordinary fully paid shares held by 845 individual shareholders.

VOTING RIGHTS

The voting rights of the ordinary shares are as follows:

a) at meetings of members each member entitled to vote may vote in person or by proxy or attorney;

b) on a show of hands each person present who is a member has one vote; and

c) on a poll each person present in person or by proxy or by attorney has one vote for each ordinary share held.

There are no voting rights attached to any of the options that the Company currently has on issue. Upon exercise of these options, the shares issued will have the same voting rights as existing ordinary shares.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of listed securities are listed below:

Ordinary Full Paid Shares

Holder Name	Holding	% of Issued Share Capital
CITICORP NOMINEES PTY LIMITED	41,145,879	27.33
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT>	17,890,203	11.89
BUTTONWOOD NOMINEES PTY LTD	13,140,822	8.73
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	9,141,527	6.07
GLENEAGLE SECURITIES NOMINEES PTY LIMITED	6,466,647	4.30
RIGI INVESTMENTS PTY LIMITED <THE CAPE A/C>	4,900,000	3.26
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,689,020	2.45
SPINITE PTY LTD	3,317,021	2.20
THE LF POINT PTY LTD <POINT A/C>	3,006,000	2.00
BNP PARIBAS NOMS PTY LTD	2,435,098	1.62
MR JASON FRANCO BATTISTESSA <AXEL BATTISTESSA-LEE A/C>	2,314,010	1.54
MR JASON FRANCO BATTISTESSA <MAGNUS BATTISTESSA-LEE A/C>	2,309,000	1.53
MR JASON FRANCO BATTISTESSA	2,126,300	1.41
MR NIR GABAY	1,881,999	1.25
TENBAGGA RESOURCES PTY LTD <TENBAGGA FAMILY A/C>	1,855,500	1.23
LAMMA NOMINEES PTY LTD	1,750,000	1.16
JB TORO PTY LTD	1,065,000	0.71
MISS KWAI-KUIN LEE & MR JASON BATTISTESSA <KUIN LEE SUPERFUND A/C>	1,054,000	0.70
GLENEAGLE ASSET MANAGEMENT LIMITED <GLENEAGLE INVESTMENTFUND A/C>	1,043,315	0.69
TRUFFLES TRADING PTY LTD <BATTISTESSA SUPERFUND A/C>	1,025,000	0.68
Total	**121,556,341**	**80.75**
Total Issued Capital	**150,526,103**	**100.00**

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SUBSTANTIAL HOLDERS

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 21 March 2024 are:

Name	No of Shares Held	% of Issued Share Capital
CITICORP NOMINEES PTY LIMITED	41,145,879	27.33
BUTTONWOOD NOMINEES PTY LTD	13,140,822	8.73%

DISTRIBUTION OF EQUITY SECURITIES

The distribution of issued quoted equity securities as at 21 March 2024 were as follows:

Holding Ranges	Number of Shareholders	Total Units	% Issued Share Capital
1 - 1,000	121	50,913	0.03
1,001 - 5,000	233	609,552	0.40
5,001 - 10,000	123	968,585	0.64
10,001 - 100,000	293	10,384,784	6.90
100,001 - and over	75	138,512,269	92.02
Total	**845**	**150,526,103**	**100.00**

There were 172 holders with unmarketable parcels totaling 112,677 shares based on the share price as at close of business on 21 March 2024.

RESTRICTED SECURITIES

As at 21 March 2024 no shares are held under escrow.

ON-MARKET BUY BACK

There is currently no on-market buyback program.

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UNQUOTED SECURITIES

As at 21 March 2024, the following unquoted securities are on issue:

Security Code	Security Name	Total Holders	Total Holdings
ELSCN	CONVERTIBLE NOTES	2	25,400,000
ELSEO3	EMP OPTS EXP 27/07/25 @ AU$0.30	1	75,000
ELSEO7	EMP OPTS EXP 25 APRIL 2027 @ $0.43	1	200,000
ELSEO9	EMP OPTS EXP 25 MAY 2027 @ $0.48	1	3,583,452
ELSOPT10	OPTIONS EXPIRING 23 JUNE 24 @ $0.35	1	100,000
ELSOPT12	OPTIONS EXPIRING 23 APRIL 2025 @ $0.28	9	800,000
ELSOPT13	OPTIONS EXPIRING 15 MAY 2025 @ $0.34	1	50,000
ELSOPT15	UNL OPTS EXP 1 FEBRUARY 2026 @ $0.43	2	130,000
ELSOPT17	UNLISTED OPTIONS EXP 14/12/2026 @ $0.38	1	50,000
ELSOPT18	UNLISTED OPTIONS EXP 14/12/2026 @ $0.44	1	200,000
ELSOPT19	UNLISTED OPTIONS EXP 14/09/2026 @ $0.42	7	577,000
ELSOPT20	UNLISTED OPTIONS EXP 14/09/2026 @ $0.48	3	1,100,000
ELSOPT21	UNLISTED OPTIONS EXP 30/08/2027 @ $0.37	14	2,894,000
ELSOPT22	UNLISTED OPTIONS EXP 18/01/2028 @ $0.37	1	43,000
ELSOPT23	UNLISTED OPTIONS EXP 18/07/2025 @ $0.37	1	50,000
ELSOPT24	UNLISTED OPTIONS EXP 12 JUNE 2025 @$0.32	1	100,000
TOTAL		47	35,352,452