

APPENDIX 4E PRELIMINARY FINAL REPORT

1. DETAILS OF REPORTING PERIOD

Name of Entity	Elsight Limited (“the Company”)
ABN	98 616 435 753
Reporting Period	31 December 2017
Previous Corresponding Period	31 December 2016

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	12 months ended Current Period \$'000	12 months ended Previous Period \$'000	Increase/ (decrease) %	Amount change \$'000
Revenues from ordinary activities	941	932	1%	9
Profit/(Loss) from ordinary activities after tax attributable to members	(3,120)	98	(3,284)%	(3,218)
Net profit/(loss) for the period attributable to members	(3,120)	98	(3,284)%	(3,218)

Comparisons to the previous corresponding period are comparisons to historical financial information extracted from El-Sight Ltd (Israel) for the year ended 31 December 2016 (refer to Notes 1 and 2 of the attached Preliminary Financial Report).

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

Commentary on results:

Refer to section 14 below.

3. STATEMENT OF COMPREHENSIVE INCOME

Refer to attached financial statements.

4. STATEMENT OF FINANCIAL POSITION

Refer to attached financial statements.

5. STATEMENT OF CASH FLOWS

Refer to attached financial statements.

6. STATEMENT OF RETAINED EARNINGS/CHANGES IN EQUITY

Refer to attached financial statements.

7. DIVIDENDS/DISTRIBUTIONS

No dividends declared in current or prior year.

8. DETAILS OF DIVIDEND REINVESTMENT PLANS

Not Applicable

9. NET TANGIBLE ASSETS PER SHARE

	Current Period	Previous Period
Net tangible asset backing per ordinary security	1.58 cents	(1.70) cents

The denominator for the net tangible asset calculation at 31 December 2017 has been adjusted to reflect the capital reorganisation (refer to Note 4 of the attached Preliminary Financial Report). The number of shares outstanding for the year ended 31 December 2017 is based on the number of ElSight Limited shares on issue as at 31 December 2017.

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

Control gained over entities

Name of entity (or group of entities)	El-Sight Ltd
Date control gained	2 June 2017
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)	N/A
Consolidated profit/(loss) from ordinary activities of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	N/A

On 2 June 2017, ElSight Limited completed the acquisition of 100% of the issued capital in El-Sight Ltd, an Israeli company that has developed and owns the El-Sight Israel Multichannel high-band-width-mobile-secured-datalink Technology. The acquisition of El-Sight Ltd has been accounted for as a capital re-organisation rather than a business combination under the Australian Accounting Standards. As such, the historical financial information of the Company will be presented as a continuation of the pre-existing accounting values of Israeli entity El-Sight Ltd. Refer to Notes 2(b), 2(e) and 3 of the attached Interim Financial Report.

Loss of control over entities

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

11. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not Applicable

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

Refer to attached financial statements.

13. FOREIGN ENTITIES

Not Applicable

14. COMMENTARY ON RESULTS FOR PERIOD AND EXPLANATORY INFORMATION

Refer to commentary on pages 2 and 3 of the attached financial statements.

15. AUDIT

This report is based on accounts which are in the process of being audited. The audited accounts are likely to contain a material uncertainty related to going concern, refer to Note 1c of the attached financial statements.



Nir Gabay
Managing Director

28 February 2018



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Review of operations

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

Elsight Limited had a loss for the year of \$3,119,570 (2016: profit of \$98,000). The 2017 loss included selling, general and administrative expenses of \$1,768,234 and non-cash share based payments of \$806,890.

The net assets of the Group have increased by \$2,782,823, from net liabilities of \$1,418,000 at 31 December 2016 to net assets of \$1,364,823 at 31 December 2017.

As at 31 December 2017, the Group's cash and cash equivalents increased from a balance of \$7,000 at 31 December 2016 to a balance of \$1,093,853. As at 31 December 2017 the Group has working capital of \$1,227,548 (2016: working capital deficit of \$1,376,000).

Significant changes in the state of affairs

Acquisition of El-Sight Limited and ASX Listing of ElSight Limited

Elsight Limited was incorporated in Australia on 13 December 2016 primarily for the purpose of investigating opportunities to invest in technology companies.

On 2 June 2017, ElSight Limited completed the acquisition of 100% of the issued capital in El-Sight Ltd, an Israeli company that has developed and owns the El-Sight Israel Multichannel high-band-width-mobile-secured-datalink Technology. The acquisition of El-Sight Ltd has been accounted for as a capital re-organisation rather than a business combination under the Australian Accounting Standards. As such, the historical financial information of the Company will be presented as a continuation of the pre-existing accounting values of Israeli entity El-Sight Ltd.

The terms of the transaction were as follows:

- The issue of 25,000,000 ordinary shares at A\$0.20 to raise A\$5,000,000 before costs;
- The issue of 35,381,386 ordinary shares to the vendors of El-Sight Ltd;
- The issue of 5,833,338 ordinary shares upon conversion of the outstanding convertible loans of A\$700,000 in the Company;
- Cash transfer to Learnicon LLC of US\$400,000 as partial repayment of the convertible loans from Learnicon LLC to El-Sight Ltd;
- The issue of 7,166,667 ordinary shares to Learnicon LLC as payment for the outstanding balance of the convertible loans from El-Sight Ltd and settlement of the rights attaching to its preferred shares in El-Sight Ltd;
- The issue of 7,000,000 Options exercisable at \$A.030 on or before 2 June 2020 to the lead manager and seed investors;
- The issue of 8,608,000 Employee Share Plan Options exercisable at A\$0.20, on or before 2 June 2022 to Mr Roee Kashi, exercisable after the satisfaction of the following vesting condition, 50% on the second anniversary of the grant date and an additional 6.25% at the end of each quarter of continuous service; and
- The issue of 30,000,000 Employee Share Plan Performance Options in three tranches exercisable at \$0.20 on or before 2 June 2022 to Mr Nir Gabay and Mr Roee Kashi, exercisable after the satisfaction of the following vesting milestones:
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A\$1,000,000 from the sale of products based on the Technology in a Year for broadcast to consumers or to manufacturers of consumer or safety products or any business in the distribution chain of consumer or safety products (**Class A Performance Options**);
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A\$4,000,000 from total sales of products based on the Technology in a Year (**Class B Performance Options**); and
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A\$10,000,000 from total sale of products based on the Technology in a Year (**Class C Performance Options**).

Further information on the capital reorganisation is detailed in Notes 1 and 2.

Elsight Limited was admitted to the Official List on the ASX on Tuesday, 6 June 2017 with Official Quotation of the securities commencing on 8 June 2017.

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Additional requirements for capital

The Group's capital requirements depend on numerous factors. Depending on the Group's ability to generate income, the Group will require further funding. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its development programmes as the case may be. There is no guarantee that the Group will be able to secure any additional funding or be able to secure funding on terms favourable to the Group.

Highlights during the year

During the year ended 31 December 2017, the Company had the following highlights.

ASX Listing

Elsight Limited was admitted to the Official List of ASX Limited and securities commenced on Thursday, 8 June 2017.

Since its listing and up until 31 December 2017, the Company has made the following material announcements:

- 15/06/2017 – Elsight Wins New Fleet Management Project in South Africa
- 10/08/2017 – Elsight Awarded Strategic Israeli Police & Government Tender
- 29/08/2017 – Hikvision and Elsight to form Strategic Alliance
- 03/10/2017 – Elsight to enter lucrative market of Autonomous Vehicles
- 04/10/2017 – Elsight and Alrena contract for emergency telemedicine joint solution comes in full force
- 06/11/2017 – Elsight Hosts Expert Cybersecurity Delegation from Australia
- 29/11/2017 – Elsight Unveils Civilian Vertical Market Solutions

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
Revenue		941,000	932,000
Cost of sales		(417,461)	(105,000)
Gross profit		523,539	827,000
Other income		4,433	13,000
Selling, general and administrative expenses	3	(1,768,234)	(661,000)
Share based payments		(806,890)	-
Transaction costs		(153,374)	-
Loss on disposal of plant and equipment		(14,453)	-
Profit/(Loss) before finance expenses		(2,214,979)	179,000
Finance expenses	3	(904,591)	(81,000)
Profit/(Loss) before income tax		(3,119,570)	98,000
Income tax expense		-	-
Profit/(Loss) for the year		(3,119,570)	98,000
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation, net of tax		(184,005)	(20,000)
Total comprehensive income/(loss) for the year		(3,303,575)	78,000
Basic earnings/(loss) per share (cents per share)		(3.74)	0.12
Diluted earnings/(loss) per share (cents per share)		(3.74)	0.12

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
CURRENT ASSETS			
Cash and cash equivalents		1,093,853	7,000
Trade and other receivables		568,745	157,000
Inventory		203,485	310,000
Other current assets		-	37,000
TOTAL CURRENT ASSETS		1,866,083	511,000
NON-CURRENT ASSETS			
Plant and equipment		254,736	59,000
Intangible assets		48,829	-
TOTAL NON-CURRENT ASSETS		303,565	59,000
TOTAL ASSETS		2,169,648	570,000
CURRENT LIABILITIES			
Trade and other payables	5	581,255	1,110,000
Borrowings	6	57,280	110,000
Convertible loans	7	-	667,000
TOTAL CURRENT LIABILITIES		638,535	1,887,000
NON-CURRENT LIABILITIES			
Borrowings	6	126,656	65,000
Provision for employees' severance benefits		39,634	36,000
TOTAL NON-CURRENT LIABILITIES		166,290	101,000
TOTAL LIABILITIES		804,825	1,988,000
NET ASSETS/(LIABILITIES)		1,364,823	(1,418,000)
SHAREHOLDERS' EQUITY/ (DEFICIT)			
Issued capital	8	5,091,738	5,000
Reserves	9	847,655	32,000
Accumulated losses		(4,574,570)	(1,455,000)
SHAREHOLDERS' EQUITY/ (DEFICIT)		1,364,823	(1,418,000)

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

	Issued Capital	Accumulated losses	Share Based Payment Reserve	Foreign Exchange Reserve	Predecessor Accounting Reserve	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2016	5,000	(1,553,000)	-	52,000	-	(1,496,000)
Profit for the year	-	98,000	-	-	-	98,000
Other comprehensive income/(loss)	-	-	-	(20,000)	-	(20,000)
Total comprehensive income/(loss) for the year	-	98,000	-	(20,000)	-	78,000
Balance at 31 December 2016	5,000	(1,455,000)	-	32,000	-	(1,418,000)
Balance at 1 January 2017	5,000	(1,455,000)	-	32,000	-	(1,418,000)
Loss for the year	-	(3,119,570)	-	-	-	(3,119,570)
Other comprehensive income/(loss)	-	-	-	(184,005)	-	(184,005)
Total comprehensive income/(loss) for the year	-	(3,119,570)	-	(184,005)	-	(3,303,575)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares	5,842,132	-	-	-	-	5,842,132
Capital raising costs	(755,394)	-	-	-	-	(755,394)
Share based payments	-	-	1,296,456	-	-	1,296,456
Transactions under common control ⁽ⁱ⁾	-	-	-	-	(296,796)	(296,796)
Balance at 31 December 2017	5,091,738	(4,574,570)	1,296,456	(152,005)	(296,796)	1,364,823

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

(i) As a result of the common control transaction, an equity account called 'Predecessor Account Reserve' exists. This equity account represents the carrying value of the net liabilities acquired. See Note 2 for further details of the acquisition.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		719,307	905,000
Payments to suppliers and employees		(2,668,717)	(706,000)
Interest received		4,433	-
Interest paid		(91,186)	(81,000)
Other income		-	13,000
Net cash (used in)/provided by operating activities		(2,036,163)	131,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(173,957)	(4,000)
Purchase of intangible assets		(50,000)	-
Proceeds from disposal of plant and equipment		-	17,000
Payments for pledged deposits		(35,644)	(5,000)
Loan proceeds received from the Company prior to acquisition date		366,178	-
Cash held by the Company at acquisition date	2a	18,993	-
Net cash provided by investing activities		125,570	8,000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from the issue of shares		3,556,279	-
Proceeds from bank loans		93,238	-
Proceeds convertible loans		-	32,000
Repayment of convertible loans		(399,935)	-
Repayment of borrowings		(235,521)	(120,000)
Net (used in)/provided by financing activities		3,014,061	(88,000)
Net increase in cash and cash equivalents		1,103,468	51,000
Cash and cash equivalents at the beginning of the financial year		7,000	5,000
Foreign exchange		(16,615)	(49,000)
Cash and cash equivalents at the end of the financial year		1,093,853	7,000

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

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

a) Basis of Measurement and Reporting Conventions Including Capital Reorganisation

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded off to the nearest dollar unless stated otherwise.

On 2 June 2017 ElSight Limited ('ELS') completed a transaction with the shareholders of El-Sight Ltd to acquire 100% of the share capital of El-Sight Ltd in exchange for 35,381,386 shares. In accordance with Australian Accounting Standards, the acquisition does not meet the definition of a business combination as ELS was established for the sole purpose of facilitating the listing process and to acquire El-Sight Ltd by way of an equity swap. The shareholders of El-Sight Ltd receive the same proportion of equity instruments in ELS.

Consequently, this report presents:

- the results of El-Sight Ltd for the period from 1 January 2017 to 2 June 2017;
- the results of the consolidated Group for the period from 2 June 2017 to 31 December 2017; and
- the consolidated Group position as at 31 December 2017.

The comparative financial information included in the Company's financial statements is that of El-Sight Ltd, not the Company. However, the capital structure of the legal acquirer, the Company is adopted in the financial report.

The accounting policies adopted are consistent with the accounting policies adopted in El-Sight Ltd's last annual financial statements for the year ended 31 December 2016. Comparative figures have been adjusted to conform to changes in presentation for the current financial year.

b) Critical Accounting Estimates and Judgements

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

Key Estimates and judgements

Capital Reorganisation

The acquisition of 100% of the issued capital of El-Sight Ltd (Israel) by the Company, by way of issuing the shareholders of El-Sight Ltd fully paid shares in the Company, has been determined by management to be a capital reorganisation as the transaction does not meet the definition of a business. Capital reorganisation transactions are a complex accounting area because there is no specific applicable accounting standards to these types of transactions. In the absence of specific guidance, management has used the guidance in AASB 108 'Accounting Policies, Change in Accounting Estimates and Errors (para 10) whereby management have used its judgment in developing and applying a relevant and reliable accounting policy using pre-combination book values to account for this transaction as no substantive economic change has occurred. Refer to Note 2 for additional information.

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Share based payments

The Group initially measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them, as well as an assessment of the probability of achieving non-market based vesting conditions.

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

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

c) Going Concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

As disclosed in the financial statements, the Group incurred a loss of \$3,119,570 and had net cash outflows from operating activities of \$2,036,163. Depending on the Group's ability to generate income, the Group will require further funding.

These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

The directors believe there are sufficient funds to meet the Group's working capital requirements as at the date of this report. The financial statements have been prepared on a going concern basis for the following reasons:

- Successful completion of an initial public offering on the ASX during the year with an oversubscribed capital raising of AUD \$5,000,000;
- Progress towards product development and sales contracts achieved during the year;
- Discussions with stock brokers and debt and equity funds indicate there are funds available to the Group; and
- Cost cutting measures available to the Group.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business and at amounts different to those stated in the financial statements.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2: COMMON CONTROL ENTITY

Summary of Acquisition

On 13 December 2016, Elsight Limited (the acquirer) was incorporated in Australia primarily for the purpose of investigating opportunities to invest in technology companies.

On 2 June 2017, the Company completed a transaction with the shareholders of El-Sight Ltd (Israel) under common control to acquire 100% of the share capital in El-Sight Ltd in exchange for 35,381,386 ordinary shares in the Company.

Refer to Notes 1(a) Basis of measurement and reporting conventions, including capital reorganisation and 1(b) Critical accounting judgments and estimates for further information.

As at the date of acquisition, the assets and liabilities of the Company were as follows:

	2017 US\$
a) Assets and Liabilities at Acquisition Date	
Cash and cash equivalents	18,993
Prepayments	32,494
Other receivables	7,989
Intercompany loan receivable	369,986
Trade and other payables	(208,174)
Convertible loans	(518,084)
Net liabilities of Elsight Limited at acquisition date	(296,796)
b) Predecessor Accounting Reserve	
Net liabilities of Elsight Limited at acquisition date	(296,796)
Predecessor Accounting Reserve	(296,796)

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3: EXPENSES	2017	2016
Profits/(Loss) before income tax from continuing operations includes the following specific expenses:	US\$	US\$
Selling, general and administrative expenses:		
- Salaries and related expenses	1,158,077	452,000
- Advertising and marketing	19,542	29,000
- Exhibits and travel	165,033	4,000
- Office rent, maintenance and communication	124,666	73,000
- Depreciation	52,886	16,000
- Professional services	299,966	51,000
- Others	(51,936)	36,000
Total selling, general and administrative expenses	<u>1,768,234</u>	<u>661,000</u>
Finance expenses:		
- Interest and bank fees	61,290	40,000
- Exchange rate differences	13,122	2,000
- Related parties interest	16,774	39,000
- Non-cash interest expense (Note 8b)	813,405	-
Total finance expenses	<u>904,591</u>	<u>81,000</u>
NOTE 4: EARNINGS/(LOSS) PER SHARE	2017	2016
	US\$	US\$
Earnings/ (Loss) per share (EPS)		
a) Profit/(Loss) used in calculation of basic EPS and diluted EPS	<u>(3,119,570)</u>	<u>98,000</u>
b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted earnings/ (loss) per share	83,381,391	83,381,391

The weighted average number of ordinary shares outstanding (the denominator of the EPS calculation) for the years ended 31 December 2017 and 31 December 2016 has been adjusted to reflect the capital reorganisation. The weighted average number of shares outstanding for the year ended 31 December 2016 is based on the weighted average number of shares of Elsight Limited outstanding in the period following the acquisition. The share capital of El-Sight Limited as at 31 December 2016 was 20,000 shares on issue which the shareholders subsequently exchanged for shares in the Company.

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 5: TRADE AND OTHER PAYABLES	2017	2016
	US\$	US\$
CURRENT		
Trade payables	95,360	284,000
Notes payable	-	53,000
Government institutions	45,145	12,000
Employees and related benefits	167,982	87,000
Shareholders ⁽ⁱ⁾	108,354	622,000
Deferred revenue	45,514	35,000
Other payables and accrued expenses	118,900	17,000
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	581,255	1,110,000
	<hr/>	<hr/>

All amounts are short-term. The carrying values of trade payables and other payables are considered to approximate fair value.

⁽ⁱ⁾On 8 March 2011, El-Sight Limited entered into a Share Purchase Agreement (“SPA”) with an investor. According to the SPA, the investors received 4,445 Preferred A Shares of ILS 1 par value each against a total investment in El-Sight of US\$450,000. Amount the other rights of the Preferred A Shares, under the SPA, as amended by an agreement dated 13 December 2016, upon IPO or other public listing of the Company, all Preferred A Shares shall be converted into Ordinary Shares and the investor shall be entitled to a payment of US\$400,000 from the proceeds of the IPO or listing in cash or shares, as soon as practical after the listing. It is clarified that such entitlement shall not arise in case no IPO is consummate. The 2016 balance with shareholders includes the invested amounts as noted above, along with credit from other shareholders.

The preference share entitlements were settled through the issue of shares on 2 June 2017. Refer to Note 8b for details of shares issued and loss recognised.

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CONSOLIDATED NOTES TO THE PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6: BORROWINGS	2017	2016
	US\$	US\$
CURRENT		
Bank overdraft	-	19,000
Short-term bank loans	4,206	10,000
Current maturities of long term bank loans	53,074	81,000
	<u>57,280</u>	<u>110,000</u>
NON-CURRENT		
Long term bank loan, net of current maturities	126,656	65,000
	<u>126,656</u>	<u>65,000</u>

The Group's borrowings are held with an Israeli bank and denominated in Israeli New Shekel's. Terms of the Group's borrowings are as follows:

2017

Facility	Type	Repayment Date	Interest Rate	Securitisation	Balance at Year End US\$
1	Long term bank loan	25 January 2022	Fixed - 2.10%	Secured	32,274
2	Short term bank loan	25 January 2018	Fixed – 6.00%	Secured	4,206
3	Long term bank loan	22 April 2020	Floating – Israeli prime rate + 3% (4.6% at 31 Dec 2017)	Secured	67,335
4	Long term bank loan	27 June 2020	Floating – Israeli prime rate + 0.6% (2.2% at 31 Dec 2017)	Secured	80,121

NOTE 7: CONVERTIBLE LOANS	2017	2016
	US\$	US\$
CURRENT		
Convertible loans	-	667,000
	<u>-</u>	<u>667,000</u>

Convertible loans

El-Sight Limited received from Learnicon, LLC, the holder of the Preferred A Shares, several loans that are valued (together with interest thereupon) as at 31 December 2016 at US\$650,000. The loans are repayable 31 December 2019 ("Maturity Date"). The Company pays interest on any outstanding amounts at a rate per annum equal to 5%, compounded annually and accrued daily, payable denominated in USD and payable at any time, in one or more instalments. The Company has the right to pay the loan at any time prior to the Maturity Date without penalty. Until the end of 2016 it was agreed that the loans are convertible at the best terms given in any investment transaction but at the end of 2016 the agreement was amended, and accordingly unless an IPO in Australia takes place, after the Maturity Date while any portion of the loan remains outstanding, the lender at its sole discretion shall have the right to convert the outstanding loan into ordinary shares of El-Sight Limited at a price per share representing a pre-money valuation of El-Sight Limited of US\$5,000,000.

US\$250,000 of the convertible loans balance was settled through the issue of shares on 2 June 2017, refer to Note 8b for details of shares issued and loss recognised. US\$400,000 of the convertible loans were repaid in cash upon completion of the Company's initial public offering and admission to the ASX Official List.

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NOTE 8: ISSUED CAPITAL		2017	2016
		US\$	US\$
(a) Share Capital			
83,381,391 (31 December 2016: 20,000) fully paid ordinary shares	8b	5,091,739	5,000

(b) Movement in Ordinary Capital

	Date	No.	Unit Price US\$	Total US\$
Opening balance at 1 January 2016	-	20,000	-	5,000
Movement during the year	-	-	-	-
Closing balance at 31 December 2016	-	20,000	-	5,000
El-Sight Ltd preference shares converted to ordinary shares in El-Sight Ltd	1-Jan-17	4,445	0.259	1,150
Less: adjustment for predecessor accounting ⁽ⁱ⁾	2-Jun-17	(24,445)	-	-
Existing shares of ElSight Limited	2-Jun-17	10,000,000	0.000	1
Issue of shares to El-Sight Ltd shareholders ⁽ⁱⁱ⁾	2-Jun-17	35,381,386	-	-
Issue of shares in relation to capital raising via public offer	2-Jun-17	25,000,000	0.154	3,842,750
Issue of shares upon conversion of Company convertible loans ⁽ⁱⁱⁱ⁾	2-Jun-17	5,833,338	0.154	896,643
Issue of shares upon conversion of El-Sight Ltd convertible loans ^(iv)	2-Jun-17	7,166,667	0.154	1,101,588
Costs of capital raising	-	-	-	(265,827)
Issue of 7,000,000 options to lead manager and seed investor, deemed capital raising cost (Note 10)	-	-	-	(489,566)
Closing balance at 31 December 2017		83,381,391	-	5,091,739

⁽ⁱ⁾The application of predecessor accounting for the acquisition and consolidation of the common controlled entity El-Sight Ltd (Israel) required the value of El-Sight Ltd shares on issue as at 31 December 2016 as a comparative.

⁽ⁱⁱ⁾The Company issued 35,381,386 fully paid ordinary shares to El-Sight Ltd shareholders, refer to Note 2 for further information.

⁽ⁱⁱⁱ⁾At 31 December 2016 the Company had A\$700,000 worth of convertible notes on issue. Upon completion of the Company's initial public offering and admission to the ASX Official List, the convertible notes automatically converted to 5,833,333 shares, each at a price of A\$0.20. Due to the discount on these shares issued, the Company incurred an interest expense of US\$352,605.

^(iv)At 31 December 2016 EL-Sight Ltd had a total liability of US\$1,100,000 to Learnicon, LLC, consisting of convertible loans of US\$650,000 and El-Sight Ltd preference share entitlements of US\$450,000. US\$400,000 of the convertible loans were repaid in cash upon completion of the Company's initial public offering and admission to the ASX Official List. 7,166,667 shares were issued to Learnicon LLC to repay the US\$250,000 convertible loans balance and to settle the US\$450,000 preference share entitlements. The shares issued have been valued at the offer issue price of A\$0.20, resulting in a loss of US\$460,800 being recognised on the conversion of convertible loans and preference share entitlements.

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NOTE 8: ISSUED CAPITAL

(c) Capital Management

Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet research and development programs and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

NOTE 9: RESERVES

	Ref	2017	2016
a) Share Based Payment Reserve		US\$	US\$
45,819,000 (31 December 2016: nil) options on issue	9b	1,296,456	-
		1,296,456	-

b) Movement in Share Based Payment Reserve

	No.	US\$
Opening balance at 1 January 2016	-	-
Movement during the year	-	-
Closing balance at 31 December 2016	-	-
Issue of options to lead manager and seed investors (Note 10)	7,000,000	489,566
Issue of ESOP options (Note 10)	8,608,000	215,585
Issue of ESOP performance options (Note 10)	30,000,000	586,980
Issue of ESOP options (Note 10)	211,000	4,325
Closing balance at 31 December 2017	45,819,000	1,296,456

c) Foreign Exchange Reserve

US\$	US\$
(152,005)	32,000

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

d) Predecessor Accounting Reserve

US\$	US\$
(296,796)	-

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

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NOTE 10: SHARE BASED PAYMENTS

During the year ended 31 December 2017 the Company recorded the following share based payments:

- The issue of 7,000,000 Options exercisable at \$A.30 on or before 2 June 2020 to the lead manager and seed investors.
- The issue of 8,608,000 Employee Share Plan Options exercisable at A\$0.20, on or before 2 June 2022 to Mr Roe Kashi, exercisable after the satisfaction of the following vesting condition, 50% on the second anniversary of the grant date and additional an 6.25% at the end of each quarter of continuous service.
- The issue of 30,000,000 Employee Share Plan Performance Options in three tranches exercisable at \$0.20 on or before 2 June 2022 to Mr Nir Gabay and Mr Roe Kashi, exercisable after the satisfaction of the following vesting milestones:
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A\$1,000,000 from the sale of products based on the Technology in a Year for broadcast to consumers or to manufacturers of consumer or safety products or any business in the distribution chain of consumer or safety products (**Class A Performance Options**);
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A\$4,000,000 from total sales of products based on the Technology in a Year (**Class B Performance Options**); and
 - one third of the Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A\$10,000,000 from total sale of products based on the Technology in a Year (**Class C Performance Options**).

The term "Year" shall mean one of: (a) the time period commencing 1 January 2017 and ending on the 12 month anniversary of the completion of the IPO; (b) the 12 month period immediately after the end of the first Year; and (c) the 12 month period immediately after the end of the second Year.

- The issue of 211,000 Employee Share Plan Options exercisable at \$A.60 on or before 9 October 2022 to employees of the Group, exercisable after the satisfaction of the following vesting condition, 50% on the second anniversary of the grant date and an additional 6.25% at the end of each quarter of continuous service.

Fair Value

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

Options	Lead Manager and Seed Investor Options	ESOP Options	ESOP Class A Performance Options	ESOP Class B Performance Options	ESOP Class C Performance Options	ESOP Options
Number of options	7,000,000	8,608,000	10,000,000	10,000,000	10,000,000	211,000
Grant date	2-Jun-17	2-Jun-17	2-Jun-17	2-Jun-17	2-Jun-17	10-Dec-17
Issue date	2-Jun-17	2-Jun-17	2-Jun-17	2-Jun-17	2-Jun-17	29-Dec-17
Exercise price	A\$0.30	\$0.20	\$0.20	\$0.20	\$0.20	\$0.60
Expected volatility	85%	85%	85%	85%	85%	100%
Implied option life	3.00	5.00	5.00	5.00	5.00	4.83
Expected dividend yield	nil	nil	Nil	Nil	Nil	Nil
Risk free rate	1.84%	2.14%	2.14%	2.14%	2.14%	2.34%
Valuation per option A\$	\$0.091	\$0.135	\$0.135	\$0.135	\$0.135	\$1.018
Exchange rate	\$0.76855	\$0.76855	\$0.76855	\$0.76855	\$0.76855	\$0.78049
Valuation per option US\$	\$0.0699	\$0.104	\$0.104	\$0.104	\$0.104	\$0.795
Total valuation US\$	\$489,566	\$893,117	\$1,037,544	\$1,037,544	\$1,037,544	\$167,648

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NOTE 10: SHARE BASED PAYMENTS

	Lead Manager and Seed Investor Options	ESOP Options	ESOP Class A Performance Options	ESOP Class B Performance Options	ESOP Class C Performance Options	ESOP Options
Likelihood of milestone achievement	n/a	n/a	75%	50%	0%	n/a
Assessed likelihood of performance milestone achievement	n/a	n/a	31-Dec-17	7-Jun-19	7-Jun-20	n/a
Vesting date	n/a	n/a	7-Jun-18	7-Jun-19	7-Jun-20	n/a

Management have assessed the likelihood of achieving the performance milestone for Class A options as 75% at 31 December 2017. The total expense of the options of US\$1,037,544 is to be recorded pro-rata over the expected vesting period, which has been determined as 8 June 2017 – 7 June 2019 in accordance with the definition of Year set out above. Pro-rata expense recognised at 31 December 2017 is US\$440,386.

Management have assessed the likelihood of achieving the performance milestone for Class B options as 50% at 31 December 2017. The total expense of the options of US\$1,037,544 is to be recorded pro-rata over the expected vesting period, which has been determined as 8 June 2017 – 7 June 2019 in accordance with the definition of Year set out above. Pro-rata expense recognised at 31 December 2017 is US\$146,594.

The implied value of Class C Performance Options is US\$1,037,544 however the probability was determined to be nil at 31 December 2017 due to the uncertainty of meeting the performance milestone.

Share Based Payments Expense

Share based payment expense at 31 December 2017 is comprised as follows:

	US\$	US\$
Issue of 8,608,000 ESOP options	215,585	-
Issue of 30,000,000 ESOP performance options	586,980	-
Issue of 211,000 ESOP options	4,325	-
Total expense recognised in profit or loss	<u>806,890</u>	-
Issue of 7,000,000 options to lead manager and seed investor, deemed capital raising cost	489,566	-
Total expense recognised in equity	<u>489,566</u>	-
Total share based payments expense	<u><u>1,296,456</u></u>	-