

January 2020 Quarterly Report

Highlights

- Halo v1.1 platform delivered on 24 November as planned, with initial quantities shipped to prospective customers for proof-of-concept (POC) trials in December and January.
- Opened US office manned with local staff.
- Numerous ongoing POCs progressing positively, with their anticipated conversion into commercial contracts projected to deliver material revenues during the first half of 2020.
- The Company continues to receive positive feedback from field trials being undertaken with POC partners, providing additional validation of the Company's flagship Halo platform.
- Following a \$2.88m AUD placement, the Company is well-funded to continue executing and accelerating its commercialisation strategy with Halo-derived revenues expected by end of 1Q 2020.

31 January 2020 – Elsight Limited (ASX: ELS) ('Elsight Ltd, 'Elsight' or 'the Company'), an ASX-listed company that develops advanced communication technologies for real-time data, video, and audio transmission over cellular networks in mission-critical environments, is pleased to provide an operational and financial update for the quarter ended 31 December 2019.

Halo commercialisation accelerating; Company receives material purchase order from strategic partner

4Q 2019 was a high activity quarter for the Company as product enhancements suggested by proof-of-concept (POC) partners were incorporated into Halo v1.1, the new iteration and first commercially available version of Halo which was released on 24 November 2019 as planned. The Company's pilot testing plan has been methodically designed to begin with local drone companies before moving to upcoming Halo trials in Singapore, with an eye towards a shift in focus to the US mid-1Q. Ongoing pilot programs continue to generate valuable feedback on Halo v1.1, and minor adaptations to the product are being made accordingly with an eye towards Halo v1.2 and beyond.

The Company continues to make significant progress validating Halo v1.1's applicability and integrability for drone operations *beyond the visual line of sight (BVLOS)* through field trials with Airobotics, Gadfin, and other drone technology and solution providers. The Company's partners and clients have carried out hundreds of hours of test flights of Halo-equipped drones, and the responses coming in indicate that the capabilities of the Halo platform with respect to the facilitation and enabling of BVLOS drone operations continue to unequivocally differentiate it from other market entrants. Moreover, the feedback and data being generated by these flights are of invaluable importance to the Company as many additional enhancements and newly identified features will be incorporated later on in the v1.2 release. Through the execution of a methodical, sector-by-sector approach, the Company is aiming to have and maintain a single, comprehensive version of firmware that is as generic as possible in order to minimise the cost of installation, integration, and adaptation.

Following the end of the reporting period the Company was pleased to announce on 13 January 2020 that it had received a material purchase order for 50 Halo units from Israel's largest defence, aerospace, robotics, and aviation manufacturer – Israel Aerospace Industries (IAI), a key strategic partner for Elsight. The 50-unit

order was received following an extended, wide-ranging POC that paved the way for the full integration of the Halo communications platform within the robotic and unmanned systems of IAI subsidiary ELTA.

Opening of US office with local staff

In November, the Company opened its first US office in Atlanta, Georgia, and announced the appointment of Karin Zalcborg as Director of Sales and Marketing for Elsieht North America. Ms Zalcborg has an extensive background in intelligence and cybersecurity on a corporate, state, and federal level, and has worked closely with US business leaders in Atlanta and other major cities to provide strategic solutions for company-wide transformation, including solving organisational challenges and scaling to new markets.

In North America, the Company remains focused on extending its ongoing work with a number of Original Equipment Manufacturers (OEMs) in both the defence and civilian sectors. In addition to established OEM relationships the Company has begun laying the groundwork for direct and indirect sales via distributors and reseller agreements under Ms Zalcborg's leadership. The Company expects to make further additions to the sales team in North America in the coming months, with an impact on revenues beginning in 3Q 2020.

Company secures \$2.88m AUD through placement to strategic investor group

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

Outlook

Overall, the Company's brand-new Halo platform's ground-breaking capabilities (miniaturised, lightweight, low heat index and power consumption, cloud-managed), combined with its impressive maturity rate (released only 37 days before and during the year-end holidays), have eclipsed the Company's best expectations. This has positively contributed to the Company's confidence in Halo becoming a core part of its business success during the first half of 2020. For instance – and as a result of the Company's sustained development and business efforts – Halo is scheduled to be demonstrated by a partner live under highly challenging performance conditions during the upcoming "Singapore Airshow 2020" (11-16 February), Asia's largest aerospace and defence event.

In parallel to investing in efforts to expand its opportunity pipeline, the Company remains focused on converting existing sales opportunities in the pipeline into commercial contracts with an initial emphasis on the unmanned, defence, and utilities sectors, and is on track to deliver Halo-derived revenues towards the end of 1Q 2020 and beyond. The commercialisation of Halo continues apace as the Company moves ahead with Halo field trials with a number of Singapore-based partners while advancing discussions with a number of US-based firms as well as candidates for our next wave of POC trials.

Further details on the financial position of the Company are outlined in the Appendix 4C attached.

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

-ENDS-

For more information, please contact:

Corporate, Business, and Media Enquiries

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About Elsight

Elsight (www.elsight.com) is a solution provider of ground-breaking hybrid video and data transport services (on-the-move or fixed) for large Safe-City projects, sensitive facilities management, and surveillance and protective activities. The platform supports data and video capturing, recording, and highly secured transmission against data and video interception and hacking. **Elsight's** platform was designed to address the most demanding requirements of Special Forces across enemy lines and sophisticated intelligence organizations. These systems underwent the most rigorous testing in combat situations as well as extensive testing by the most demanding laboratories. As a result, they present an unmatched level of reliability, lowest latency, and highest adaptive bandwidth over cellular networks that enables HD and 4K tv transmission quality, with "never-fail" redundancy and much more. For the first time they offer strict military requirements for civil usage. **Elsight's** customers range from defence and homeland security to industrial security, broadcasting, first responders and healthcare.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

ELSIGHT LIMITED

ABN

98 616 435 753

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	326	1,906
1.2 Payments for		
(a) research and development	(274)	(1,149)
(b) product manufacturing and operating costs	(246)	(717)
(c) advertising and marketing	(182)	(761)
(d) leased assets ⁽ⁱ⁾	-	-
(e) staff costs	(128)	(631)
(f) administration and corporate costs	(155)	(1,135)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	33
1.5 Interest and other costs of finance paid ⁽ⁱ⁾	(5)	(27)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other – transaction costs	-	-
1.9 Net cash from / (used in) operating activities	(663)	(2,481)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(51)	(109)
(b) businesses (see item 10)	-	-
(c) investments	-	-

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Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
(d) intellectual property	-	-
(e) other non-current assets (intangibles)	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other – cash on reverse acquisition	-	-
2.6 Net cash from / (used in) investing activities	(51)	(109)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	6	74
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(6)	(20)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other – principal elements of lease payments ⁽ⁱ⁾	(51)	(171)
3.10 Net cash from / (used in) financing activities	(51)	(117)

4 Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,666	3,633
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(663)	(2,481)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(51)	(109)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(51)	(117)

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Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.5	Effect of movement in exchange rates on cash held	32	7
4.6	Cash and cash equivalents at end of quarter	933	933

- (i) The Group has adopted new accounting standard AASB 16 *Leases* with effect from 1 January 2019. In accordance with the requirements of AASB 16 cash payments for the principal portion of the Group's lease liabilities are presented within financing activities. Cash payments for the interest portion are presented within interest and other costs of finance paid.

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1	Bank balances	933	1,666
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	933	1,666

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$US'000**

100

-

Item 1.2 includes payments to directors for their salaries and fees of US\$100,000

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$US'000**

-

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
8.1 Loan facilities	73	73
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Facilities included above comprise a bank overdraft facility, short term bank loans and long term bank loans.

Loan facility 1 – secured long term bank loan of US\$17,000 at quarter end, bearing interest at 2.25%.

Loan facility 2 - secured long term bank loan of \$US56,000 at quarter end, bearing interest at 2.35%.

9. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	343
9.2 Product manufacturing and operating costs	266
9.3 Advertising and marketing	255
9.4 Leased assets	42
9.5 Staff costs	184
9.6 Administration and corporate costs	188
9.7 Other	-
9.8 Total estimated cash outflows	1,278

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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Compliance statement

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

Sign here: 
(~~Director~~/Company secretary)

Date: 31st January 2020

Print name: Mark Licciardo

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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