ELSIGHT LIMITED

ABN 98 616 435 753

ANNUAL REPORT
31 DECEMBER 2017

CONTENTS

CORPORATE DIRECTORY

Directors
Major General (ret) Ami Shafran – Non-Executive Chairman
Mr Nir Gabay – Managing Director
Mr David Furstenberg – Non-Executive Director
Mr Howard Digby – Non-Executive Director
Dr Anton Uvarov – Non-Executive Director

Company Secretaries
Mr Stephen Buckley
Mr Peter Webse

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Securities Exchange Listing
ASX Limited
Level 40, Central Park
152-158 St Georges Terrace
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ASX Code – ELS

Dear Shareholder,

It is an honour and a privilege to be able to write this letter as Chairman of Elsight Limited which was listed on the Australian Securities Exchange in June 2017. We are humbled and pleased with the support the Company has received form investors, in the someway that we are excited at the way our products have been received by Customers.

In calendar 2017 the company grew revenues slightly compared to the previous year while completing a listing process and undergoing a significant business transformation. As the result of this transformation the company is positioned well to capitalise on what we believe is significant opportunity for its multichannel technology across a number of industry segments.

Elsight has already established itself in military, security and first responder markets, and has since made concrete steps in the field of Telemedicine. The company is also planning its entry into the broadcast sector, having received considerable interest from parties interested in the ability transmit high quality video over cellular networks in "real time". Subsequently the company has uncovered significant market needs for its technology in the Autonomous Vehicle market, starting with the supply of low latency communications for test vehicles of which there are thousands on the road today.

In order to properly plan and execute its strategy to address new verticals the company has returned to the market to raise further investment.

We expect 2018 to be an exciting year, building on the progress made in 2017.

Sincerely,

Maj. Gen. (res) Ami Shafran

Chairman

DIRECTORS' REPORT

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 2017.

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 Nir Gabay	Managing Director	2 June 2017	-
Mr David Furstenberg	Non-Executive Director	2 June 2017	-
Mr Howard Digby	Non-Executive Director	13 December 2016	-
Dr Anton Uvarov	Non-Executive Director	13 December 2016	-
Mr Nathan Barbarich	Non-Executive Director	13 December 2016	2 June 2017

Principal Activities

The principal continuing activities of the Group during the year was the development and commercialisation of multichannel high-band-width-mobile-secured-datalink technology.

Dividends

There were no dividends paid or recommended during the financial year ended 31 December 2017 (2016: Nil).

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 (US$3,842,750) 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 (US$896,643) 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 of the financial statements.

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.

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

Significant events after the reporting period

Since the reporting date the following significant events have occurred:

- 08/01/2018 – Automotive Robotic Industry Ltd places order
- 11/01/2018 – First purchase order received from autonomous car sector
- 22/01/2018 – Elsight technology critical to protecting US vice president
- 22/02/2018 – Elsight releases new Omnisight product
- 05/03/2018 – Institutional placement closes oversubscribed, to raise A$9,005,189 (before expenses of the offer) from wholesale and institutional investors through the issue of 12,507,208 fully paid ordinary shares.

There were no other significant events after reporting date.

Information on Directors

Major General (ret) Ami Shafran	Non-Executive Chairman (Appointed 2 June 2017)
Qualifications	-
Experience	Major General Shafran is the former Heard of the Israeli Defence Force Information and Communications Technology Command. In addition, he is currently the Head of the Centre 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 Attache at the Israeli Embassy in Washington DC.
Interest in Shares and Options at the date of this report	Nil
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	Nil

Mr Nir Gabay	Managing Director (Appointed 2 June 2017)
Qualifications	-
Experience	Nir is one of the founders of El-Sight Israel. Commencing his career in the Israeli military, he has more than 20 years' experience in communications, security and surveillance including a mobile cellular provider, local municipality, and high tech companies., and was previously a member of an Israeli Special Forces unit. During the past ten years Nir has been involved in a number of technological and business achievements. Among them is the establishment of El-Sight Israel, which was founded based on his communications and security experiences.
Interest in Shares and Options at the date of this report	26,052,974 Ordinary shares and 29,595,000 Performance Options expiring 2 June 2022 exercisable at $0.20
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	Nil

Information on Directors

Mr David Furstenberg	Non-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 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).
Interest in Shares and Options at the date of this report	Nil
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	Nil

Mr Howard Digby	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. More recently, he was 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 an advisor and investor, having played key roles in several M&A and reverse takeover transactions.
Interest in Shares and Options	1,708,334 Ordinary shares and 750,000 Options expiring 2 June 2020 exercisable at $0.30
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	4DS Memory Limited (current) Omni Market Tide Limited (current) HearMeOut Limited (resigned 11 September 2017) Estrella Resources Ltd (resign 3 April 2017)

DIRECTORS' REPORT

Information on Directors

Dr Anton Uvarov	Non-Executive Director (Appointed 13 December 2016)
Qualifications	PhD, MBA
Experience	Anton has significant experience as an equity analyst both in Australia and overseas. Prior to moving to Australia, he was with Citigroup Global Markets, where he spent two years as a member of the New York based Healthcare team. Anton's technical expertise and company knowledge spreads across a variety of industries and spectrum of market capitalisations, with his particular interest in early stage startups.
Interest in Shares and Options	1,708,334 Ordinary shares and 750,000 Options expiring 2 June 2020 exercisable at $0.30
Special Responsibilities	Nil
Directorship held in other listed entities (last 3 years)	HearMeOut Limited (resigned 11 September 2017) Actinogen Medical Limited (resigned 14 August 2017)

Mr Nathan Barbarich	Non-Executive Director (Appointed 13 December 2016, Resigned 2 June 2017)
Qualifications	BComm (Property) & BComm (Law)
Experience	Nathan started his career in Stockbroking with ABN Amro in the 1990's and has since held several Director and Managing Director positions in Investment Banking and Corporate Finance leading many recognisable transactions over those nearly 20 years. Nathan has been responsible for listing many companies onto the ASX, AIM and LSE markets and has been Lead Manager to Capital Raisings in the many hundreds of millions of dollars. With a particular focus on the small to mid-cap sectors Nathan has been mandated by Companies in the Resources, Energy, Technology and Industrial sectors and has held a number of Non-Executive Director positions across his career.
Interest in Shares and Options	2,325,000 Ordinary shares and 1,000,000 Options expiring 2 June 2020 exercisable at $0.30 (as at the date of resignation)
Special Responsibilities	Nil
Directorship held in other listed entities (last 3 years)	Nil

Information on Key Management

Mr Roee Kashi	Vice President – Research and Development
Qualifications	-
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 DVR 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.

Information on Company Secretaries

Mr Stephen Buckley Company Secretary

Qualifications GAICD

Experience Mr Buckley has over 35 years' experience in financial markets and is managing director of Company Secretary Solutions Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. In the 20 years prior to starting his own business, Mr Buckely has held executive and senior leadership roles in partnership management and business development.

Mr Peter Webse Company Secretary

Qualifications B.Bus, FGIA, FCPA, MAICD

Experience Mr Webse has over 25 years' company secretarial experience and is managing director of Platinum Corporate Secretariat Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. Mr Webse holds a Bachelor of Business with a double major in Accounting and Finance, is a Fellow of the Governance Institute of Australia, a Fellow Certified Practicing Accountant and a Member of the Australian Institute of Company Directors.

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' MEETINGS	
		Number eligible to attend	Number Attended
Ami Shafran	Appointed 2 June 2017	5	5
Nir Gabay	Appointed 2 June 2017	5	5
David Furstenberg	Appointed 2 June 2017	5	5
Howard Digby	Appointed 13 December 2016	5	5
Anton Uvarov	Appointed 13 December 2016	5	5
Nathan Barbarich	Appointed 13 December 2016, Resigned 2 June 2017	-	-

Options

Unissued shares under option

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

Expiry Date	Issue Date	Exercise Price	Number Under Option
2 June 2020	2 June 2017	A$0.30	7,000,000
2 June 2022	2 June 2017	A$0.20	30,000,000
2 June 2022	2 June 2017	A$0.20	8,608,000
9 October 2022	29 December 2017	A$0.60	211,000
14 November 2022	9 January 2018	$A1.08	25,000
			45,844,000

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity. No options were exercised during the year (2016: Nil).

DIRECTORS' REPORT

Proceedings on Behalf of 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.

Indemnifying 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.

Environmental Regulations

In the normal course of business, there are no environmental regulations or requirements that the Company is subject to.

Likely Developments and Expected Results of Operations

The Company's principal continuing activity is the development and commercialisation of multichannel high-band-width-mobile-secured-datalink technology. The Company's future developments, prospects and business strategies are to continue to develop and commercialise this technology.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, BDO Audit (WA) Pty Ltd, 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

During the year, BDO Audit (WA) Pty Ltd, the Company's auditor provided non-audit services of US$10,891 in relation to the Investigating Accountant's Report. Full details of their remuneration can be found within the financial statements at Note 7 Auditor's Remuneration.

In the event that non-audit services are provided by BDO (WA) Pty Ltd, 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.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 31 December 2017 has been received and can be found on page 19 of the financial report.

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2017 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.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements
4. Non-executive Director fee arrangements
5. Details of remuneration
6. Additional disclosures relating to equity instruments
7. Loans to key management personnel (KMP) and their related parties
8. Other transactions and balances with KMP and their related parties

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	Appointed	Resigned
Major General (ret) Ami Shafran	Non-Executive Chairman	2 June 2017	-
Mr Nir Gabay	Managing Director	2 June 2017	-
Mr David Furstenberg	Non-Executive Director	2 June 2017	-
Mr Howard Digby	Non-Executive Director	13 December 2016	-
Dr Anton Uvarov	Non-Executive Director	13 December 2016	-
Mr Nathan Barbarich	Non-Executive Director	13 December 2016	2 June 2017
Mr Roee Kashi	Vice President – Research and Development	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, 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.

At the date of this report the Company has two appointed executives, Mr Nir Gabay as Managing Director and Mr Roee Kashi as Vice President – Research and Development. The terms of their Executive Employment Agreements with Elsight Limited are summarised in the following table.

Executive Name	Services Agreement Summary
Mr Nir Gabay	• Executive salary of ILS440,000 per annum (based on the exchange rate at the date of this report, equals approximately US$127,000 per annum). • Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the Group's reimbursement policies. • The agreement commenced on 5 April 2017 and may be terminated by either party on 12 months' notice, but is for a minimum period of three years. It may be terminated immediately with justifiable cause.
Mr Roee Kashi	• Executive salary of ILS420,000 per annum (based on the exchange rate at the date of this report, equals approximately US$121,000 per annum). • Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the 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.

At this stage 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.

Performance Conditions Linked to Remuneration

The Group has established and maintains Employee 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 any Group Company;
- a full or part time employee of any Group Company;
- a casual employee or contractor of a Group Company; 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. A total of 38,608,000 Options were issued to executives under the Plan during the 2017 financial year (2016: nil).

4. Non-executive Director fee arrangements

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 AU$500,000 (US$390,245) 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 $87,304 (2016: nil) 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 2017.

31-Dec-17	Short Term Salary, Fees & Commissions US$	Post-Employment Retirement Benefits US$	Non-monetary benefits US$	Other[(i)] US$	Share-based payments[(ii)] US$	Total US$	Performance based remuneration
Directors:							
Ami Shafran	21,826	-	-	-	-	**21,826**	-
Nir Gabay	142,515	18,746	5,540	8,813	579,056	**754,670**	77%
David Furstenberg	21,826	-	-	-	-	**21,826**	-
Howard Digby	21,826	-	-	-	-	**21,826**	-
Anton Uvarov	21,826	-	-	-	-	**21,826**	-
Nathan Barbarich	-						-
Key management:							
Roee Kashi	115,311	17,295	-	10,193	223,509	366,308	61%
Total	**345,130**	**36,041**	**5,540**	**19,006**	**802,565**	**1,208,282**	

(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 on share based payments granted to directors and key management during the year.

31-Dec-16	**Short Term Salary, Fees & Commissions** **US$**	**Post-Employment Retirement Benefits** **US$**	**Other[(i)]** **US$**	**Share-based payments** **US$**	**Total** **US$**	**Performance based remuneration**
Directors:						
Ami Shafran	-	-	-	-	-	-
Nir Gabay	103,818	14,801	6,926	-	125,545	-
David Furstenberg	-	-	-	-	-	-
Howard Digby	-	-	-	-	-	-
Anton Uvarov	-	-	-	-	-	-
Nathan Barbarich	-	-	-	-	-	-
Key management:				-		
Roee Kashi	104,266	13,198	7,276		124,740	-
Total	**208,084**	**27,999**	**14,202**	**-**	**250,285**	**-**

[(i)]Israeli social benefits.

6. Additional disclosures relating to equity instruments

KMP Shareholdings

There were no shares issued as remuneration or on the exercise of options during the 2017 financial year (2016: nil).

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

31-Dec-17	**Balance at start of the year**	**Shares issued during the year[(i)]**	**Shares issued during the year[(ii)]**	**Shares issued during the year[(iii)]**	**Other changes during the year**	**Balance at end of the year**
Directors:						
Ami Shafran	-	-	-	-	-	-
Nir Gabay	-	-	26,052,974	-	-	26,052,974
David Furstenberg	-	-	-	-	-	-
Howard Digby	-	1,500,000	-	208,334	-	1,708,334
Anton Uvarov	1	1,500,000	-	208,334	(1)	1,708,334
Nathan Barbarich	-	2,325,000	-	-	(2,325,000)[(iv)]	-
Key management:						
Roee Kashi	-	-	2,894,775	-	-	2,894,775
Total	**1**	**5,325,000**	**28,947,749**	**416,668**	**(2,325,001)**	**32,364,417**

[(i)]On 13 December 2016, the date of incorporation of Elsight Limited, the issued capital of Elsight Limited was 1 ordinary share. In January and February 2017 share splits occurred resulting in the division of the 1 ordinary share into 10,000,000 ordinary shares. As a result of the splits, 1,500,000 shares were issued to each of Lamma Nominees Pty Ltd and Yulia Uvarov <Techinvest Nominees A/C> and 2,325,000 shares were issued to GNat Pty Ltd. Lamma Nominees Pty Ltd is a related party of Howard Digby by virtue of being controlled by his spouse. Yulia Uvarov is the Trustee for the Techinvest Nominees and is a related party of Anton Uvarov by virtue of being controlled by his spouse. GNat Pty Ltd is an entity controlled by Nathan Barbarich.

[(ii)]Shares issued to key management personnel as consideration for their shareholding in El-Sight Ltd.

[(iii)]Shares issued in respect of the conversion of Elsight Limited convertible notes totaling A$25,000 each for Mr Digby and Mr Uvarov on completion of the Company's Initial Public Offer and admission to the ASX Official List.

[(iv)]Mr Barbarich resigned on 2 June 2017 and is not considered to be a KMP from this date.

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.

KMP Options Holdings

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

31-Dec-17	Balance at the start of the year	Granted as remuneration during the year[(i)]	Exercised during the year	Options issued during the year[(ii)]	Other changes during the year[(iii)]	Balance at the end of the year	Vested and exercisable	Unvested and un-exercisable
Directors:								
Ami Shafran	-	-	-	-	-	-	-	-
Nir Gabay	-	29,595,000	-	-	-	29,595,000	-	29,595,000
David Furstenberg	-	-	-	-	-	-		
Howard Digby	-	-	-	750,000	-	750,000	750,000	-
Anton Uvarov	-	-	-	750,000	-	750,000	750,000	-
Nathan Barbarich	-	-	-	1,000,000	(1,000,000)	-	-	-
Key management:								
Roee Kashi	-	9,013,000	-	-	-	9,013,000	-	9,013,000
Total	**-**	**38,608,000**	**-**	**2,500,000**	**(1,000,000)**	**40,108,000**	**1,500,000**	**38,608,000**

[(i)]Refer terms and conditions of the share-based payment arrangements section below for details of remuneration options issued during the year.
[(ii)]Options issued to key management personnel in their capacity as seed investors and lead manager.

[(iii)]Mr Barbarich resigned on 2 June 2017 and is not considered to be a KMP from this date.

Year ended 31 December 2016

There were no options on issue during the 2016 financial year.

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[(i)]	Expiry date	Exercise price	Value per option at grant date[(iii)]	Vested %
ESOP Options	8,608,000	2-Jun-17	(ii)	2-Jun-22	A$0.20	US$0.104	-
Class A Performance Options	10,000,000	2-Jun-17	7-Jun-18	2-Jun-22	A$0.20	US$0.104	-
Class B Performance Options	10,000,000	2-Jun-17	7-Jun-19	2-Jun-22	A$0.20	US$0.104	-
Class C Performance Options	10,000,000	2-Jun-17	7-Jun-20	2-Jun-22	A$0.20	US$0.104	-

[i]The vesting and exercise dates of the Performance Options are based on the definition of Year set out below.

Vesting of Performance Options is subject to achievement of the following performance milestones:

Option Class	Performance Milestone	Assessed likelihood of milestone achievement
Class A Performance Options	Class A 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[a] for broadcast to consumers or to manufacturers of consumer or safety products or any business in the distribution chain of consumer or safety products.	75%
Class B Performance Options	Class B 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[a].	50%
Class C Performance Options	Class C Performance Options will vest and become exercisable upon the Company achieving aggregate revenue of A$10,000,000 from total sale of products based on the Technology in a Year[a].	-

[a]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.

[ii]50% of the 8,608,000 options vest on 2 June 2019, with an additional 6.25% vesting at the end of each quarter of continuous service thereafter. There are no performance milestones applicable to the ESOP Options.

[iii]The value per option at grant date has been determined using a Black Scholes option pricing model. Details of Black Scholes inputs and valuations can be found at Note 20. Share-based payment expense is recorded pro-rata over the vesting period.

31-Dec-17	Fair value of options granted during the year US$	Value of options vested during the year US$	Value of options lapsed during the year US$	Value of options included in remuneration report for the year US$	Remuneration consisting of options for the year US$
Directors:					
Nir Gabay	3,070,611	-	-	579,056	77%
Key management:					
Roee Kashi	935,138	-	-	223,509	61%

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

Details of loans made to the Group by directors and key management are set out below.

Name	Balance at the start of the year US$	Interest paid and payable for the year US$	Interest not charged US$	Repayments made during the year US$	Converted to equity during the year[i] US$	Balance at the end of the year US$	Highest indebtedness during the year US$
Directors:							
Nir Gabay	66,527	-	-	(66,527)	-	-	66,527
Howard Digby	25,000	(i)	(i)	-	(25,000)	-	25,000
Anton Uvarov	25,000	(i)	(i)	-	(25,000)	-	25,000

[i] Shares were issued in respect of the conversion of Elsight Limited convertible notes totaling A$25,000 each for Mr Digby and Mr Uvarov on completion of the Company's Initial Public Offer and admission to the ASX Official List. The conversion price was A$0.12 per share (a 40% discount to the offer issue price).

8. Other transactions and balances with KMP and their related parties

Transactions with related parties are entered into on terms equivalent to those that prevail in arm's length transactions. The Group had the following transactions with members of the Group's key management personnel and/or their related parties during the year.

Entity / Key management personnel	Nature of transaction	Transaction value US$	Payable balance US$
Nir Gabay	Issue of 26,052,974 ordinary shares[i]	-	-
Nir Gabay	Interest[ii]	16,774	16,774
Susana Gabay / Nir Gabay	Salary and salary related expenses	21,370	-
Eden Gabay / Nir Gabay	Professional services	1,860	-
Howard Digby	Issue of 208,334 ordinary shares[iii]	32,023	-
Howard Digby	Issue of 750,000 options[iv]	52,425	-
Lamma Nominees Pty Ltd/ Howard Digby	Issue of 1,500,000 ordinary shares[v]	0.13	-
Anton Uvarov	Issue of 208,334 ordinary shares[iii]	32,023	-
Anton Uvarov	Issue of 750,000 options[iv]	52,425	-
Yulia Uvarov <Techinvest Nominee A/C>/ Anton Uvarov	Issue of 1,500,000 ordinary shares[v]	0.13	-
Roee Kashi	Issue of 2,894,775 ordinary shares[i]	-	-
Nathan Barbarich	Issue of 1,000,000 options[iv]	69,900	-
GNat Pty Ltd / Nathan Barbarich	Issue of 2,325,000 ordinary shares[v]	0.13	-
RM Corporate Finance Pty Ltd / Nathan Barbarich	Corporate advisory fees paid	89,465	-
RM Corporate Finance Pty Ltd / Nathan Barbarich	Capital raising fees paid	271,000	-

[i]Shares issued to key management personnel as consideration for their shareholding in El-Sight Ltd.

[ii]Interest has been accrued on the historic balance of deferred salaries and reimbursable expenses due to Mr Nir Gabay at a rate of 5.38% in accordance with Israeli statutory requirements.

[iii]Shares issued in respect of the conversion of Elsight Limited convertible notes totalling A$25,000 each for Mr Digby and Mr Uvarov on completion of the Company's Initial Public Offer and admission to the ASX Official List. The conversion price was A$0.12 per share (a 40% discount to the offer issue price). The shares issued have been valued at the offer issue price of $A0.20.

[iv]Options issued to key management personnel in their capacity as seed investor or lead manager. Options are exercisable at A$0.30 on or before 2 June 2020 (refer terms, conditions and valuations at Note 20).

[v]On 13 December 2016, the date of incorporation of Elsight Limited, the issued capital of Elsight Limited was 1 ordinary share at A$1. In January and February 2017 share splits occurred resulting in the division of the 1 ordinary share into 10,000,000 ordinary shares. As a result of the splits, 1,500,000 ordinary shares were issued to each of Lamma Nominees Pty Ltd and Yulia Uvarov <Techinvest Nominee A/C> and 2,325,000 shares were issued to GNat Pty Ltd. The total value of each lot of shares issued has been calculated at based upon the incorporation date capital of A$1.

Lamma Nominees Pty Ltd is a related party of Howard Digby by virtue of being controlled by his spouse.

Yulia Uvarov is the Trustee for Techinvest Nominees and is a related party of Anton Uvarov by virtue of being controlled by his spouse.

GNat Pty Ltd is an entity controlled by Nathan Barbarich.

9. Voting of shareholders at last year's annual general meeting

The financial year ended 31 December 2017 is the Company's first financial year as a disclosing entity; accordingly, no remuneration report was prepared at 31 December 2016 and no vote by shareholders was applicable.

REMUNERATION REPORT (END)

Signed in accordance with a resolution of the Board of Directors.

Mr Nir Gabay
Managing Director
28 March 2018

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Australia

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF ELSIGHT LIMITED

As lead auditor of Elsight Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Elsight Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 28 March 2018

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

	Note	2017	2016
		US$	US$
Revenue	3	941,000	932,000
Cost of sales	3	(417,461)	(105,000)
Gross profit		**523,539**	**827,000**
Other income		4,433	13,000
Selling, general and administrative expenses	4	(1,768,234)	(661,000)
Share based payments	20	(806,890)	-
Acquisition and listing costs		(153,374)	-
Loss on disposal of plant and equipment		(14,453)	-
Profit/(Loss) before finance expenses		**(2,214,979)**	**179,000**
Finance expenses	4	(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:			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation, net of tax	18(d)	(184,005)	(20,000)
Total comprehensive income/(loss) for the year attributable to owners of the Company		**(3,303,575)**	**78,000**
Earnings/(loss) per Share attributable to owners of the Company			
Basic earnings/(loss) per share (cents per share)	8	(3.74)	0.12
Diluted earnings/(loss) per share (cents per share)	8	(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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 US$	2016 US$
CURRENT ASSETS			
Cash and cash equivalents	9 a	1,093,853	7,000
Trade and other receivables	10	568,745	157,000
Inventory	11	203,485	310,000
Other current assets	12	-	37,000
TOTAL CURRENT ASSETS		**1,866,083**	**511,000**
NON-CURRENT ASSETS			
Plant and equipment	13	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	14	581,255	1,110,000
Borrowings	15	57,280	110,000
Convertible loans	16	-	667,000
TOTAL CURRENT LIABILITIES		**638,535**	**1,887,000**
NON-CURRENT LIABILITIES			
Borrowings	15	126,656	65,000
Provision for employees' severance benefits	17	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	18	5,091,738	5,000
Reserves	19	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.

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)
Transactions with owners in their capacity as owners:						
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.

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

	Note	2017	2016
		US$	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 provided by/(used in) operating activities	9 b	**(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	2 a	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 cash provided by/(used in) 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	**9 a**	**1,093,853**	**7,000**

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

These consolidated financial statements cover Elsight Limited (**Company**) and its controlled entities as a consolidated entity (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 28 March 2018 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the financial report

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 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 received 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.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

d) Income Tax

Current income tax expense charged to the 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 the 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.

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.

e) Leases

Leases are classified at their inception as either operating or finance leases based on economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments made under operating leases are charged against profits in equal installments over the accounting periods covered by the lease term where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item.

The cost of improvements to or on leased property is capitalized, disclosed as leasehold improvements and amortised.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Finance leases

Leases which effectively transfer substantially all of the risks and rewards incidental to ownership of the leased item to the Company are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

f) Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and subsequent measurement

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(ii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Derivative instruments

The Group does not trade or hold derivatives.

Financial guarantees

The Group has no material financial guarantees.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flow expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

g) Impairment of non-financial assets

At the end of each reporting period, the Directors assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits.

If any such indication exists, an impairment test is carried out on the asset by comparing the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks with original maturity of three months or less.

i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Trade receivables are generally due for settlement within 30 days.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within impairment losses – financial assets. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against impairment losses – financial assets in the statement of profit or loss and other comprehensive income.

j) 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.

k) Revenue Recognition

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

Revenue is recognised when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.
Transfer of risks and rewards occurs when the goods are transferred to the customer.

l) Operating expenses

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

m) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

n) 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.

o) Employee Benefits

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.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 either a Black Scholes or Monte Carlo simulation model depending on the type of share-based payment.

p) 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.

q) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

r) Equity and reserves

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. The option reserve records the value of share-based payments.

s) 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 USA dollars which is the Parent's functional 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 the 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.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 foreign operations with functional currencies other than Australian 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 the profit or loss in the period in which the operation is disposed of.

t) 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.

u) 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 the Black-Scholes pricing model. The number of shares and 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.

v) Earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to member of the parent entity, 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 year (if any).

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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

w) 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.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

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.

x) 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.

y) 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.

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.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 20.

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(b) Basis of measurement and reporting conventions, including capital reorganisation; 1(x) Predecessor accounting; and 1(y) 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)

NOTE 3: REVENUE	**2017 US$**	**2016 US$**
Local	500,080	642,000
Export	440,920	290,000
Total revenue	941,000	932,000

NOTE 4: 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	1,768,234	661,000
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 18(b))	813,405	-
Total finance expenses	904,591	81,000

NOTE 5: INCOME TAX

The financial accounts for the year ended 31 December 2017 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% (2016: 30%). The applicable tax rate in Israel is 24% (2016: 25%).

	2017	2016
	US$	US$
(a) Income tax expense	-	-
Current tax	-	-
Deferred tax	-	-
(b) The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Income tax expense/(benefit) on operating loss at 25.23% (2016: 25%)	(194,827)	24,500
Non-deductible items		
Non-deductible expenditure	(98,052)	6,619
Non-assessable income	-	(10,717)
Deferred tax assets not recognised	292,879	-
Income tax attributable to operating income/(loss)	-	20,402
Utilisation of tax losses	-	(20,402)
Income tax expense	-	-
Deferred tax assets		
Tax losses	287,978	260,783
Accruals	4,901	-
Deferred tax asset	292,879	260,783
Less deferred tax assets not recognised	(292,879)	(260,783)
Net deferred tax assets	-	-
Deferred tax liabilities		
Other	-	-
Net deferred tax liabilities	-	-
Deferred tax assets not brought to account		
Temporary differences	4,901	-
Operating tax losses	287,978	260,738
Capital loss	108,915	-
Unused tax losses for which no deferred tax asset has been recognised	401,794	260,738

Carry forward losses

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 31 December 2017, because the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

NOTE 6: RELATED PARTY TRANSACTIONS

a) Key Management Personnel Compensation

The totals of remuneration paid to KMP during the year are as follows:

	2017	2016
	US$	US$
Short-term salary and fees	345,130	208,084
Retirement benefits	36,041	27,999
Non-monetary benefits	5,540	
Other	19,006	14,202
Share based payments	802,565	-
Total KMP Compensation	1,208,282	250,285

b) Other related party transactions

Entity / Key management personnel	Nature of transactions	Transaction value		Payable balance	
		2017	2016	2017	2016
		US$	US$	US$	US$
Nir Gabay	Issue of 26,052,974 ordinary shares[i]	-	-	-	-
Nir Gabay	Issue of 29,595,000 performance options[ii]	3,070,611	-	-	-
Nir Gabay	Interest[iii]	16,774	-	16,774	-
Susana Gabay / Nir Gabay	Salary and salary related expenses	21,370	-	-	-
Eden Gabay / Nir Gabay	Professional services	1,860	-	-	-
Icontrol / Nir Gabay	Purchases of inventory with deferred payment terms	-	66,527	-	66,527
Dipio/Nir Gabay and Roee Kashi	Revenue earned	16,987	10,549	-	-
Howard Digby	Issue of 208,334 ordinary shares[iv]	32,023	-	-	-
Howard Digby	Issue of 750,000 options[v]	52,425	-	-	-
Lamma Nominees Pty Ltd/ Howard Digby	Issue of 1,500,000 ordinary shares[vi]	0.13	-	-	-
Anton Uvarov	Issue of 208,334 ordinary shares[iv]	32,023	-	-	-
Anton Uvarov	Issue of 750,000 options[v]	52,425	-	-	-
Yulia Uvarov <Techinvest Nominee A/C>/ Anton Uvarov	Issue of 1,500,000 ordinary shares[vi]	0.13	-	-	-
Roee Kashi	Issue of 2,894,775 ordinary shares[i]	-	-	-	-

NOTE 6: RELATED PARTY TRANSACTIONS

Entity / Key management personnel	**Nature of transactions**	**Transaction value**		**Payable balance**	
		2017	**2016**	**2017**	**2016**
		US$	**US$**	**US$**	**US$**
Roee Kashi	Issue of 8,608,000 options[vii]	893,117	-	-	-
Roee Kashi	Issue of 405,000 performance options[ii]	42,021	-	-	-
Roee Kashi	Revenue earned	-	4,354	-	-
Nathan Barbarich	Issue of 1,000,000 options[v]	69,900	-	-	-
GNat Pty Ltd / Nathan Barbarich	Issue of 2,325,000 ordinary shares[vi]	0.13	-	-	-
RM Corporate Finance Pty Ltd / Nathan Barbarich	Corporate advisory fees paid	89,465	-	-	-
RM Corporate Finance Pty Ltd / Nathan Barbarich	Capital raising fees paid	271,000	-	-	-

[i]Shares issued to key management personnel as consideration for their shareholding in El-Sight Ltd.

[ii]Employee Share Plan Performance Options issued (refer terms, conditions, and valuations at Note 20). The value recorded in the table above represents the pro-rata expense of the options recorded in the consolidated statement of profit or loss and other comprehensive during the period.

[iii]Interest has been accrued on the historic balance of deferred salaries and reimbursable expenses due to Mr Nir Gabay at a rate of 5.38% in accordance with Israeli statutory requirements.

[iv]Shares issued in respect of the conversion of Elsight Limited convertible notes totalling A$25,000 each for Mr Digby and Mr Uvarov on completion of the Company's Initial Public Offer and admission to the ASX Official List. The conversion price was A$0.12 per share (a 40% discount to the offer issue price). The shares issued have been valued at the offer issue price of $A0.20.

[v]Options issued to key management personnel in their capacity as seed investor or lead manager. Options are exercisable at A$0.30 on or before 2 June 2020 (refer terms, conditions and valuations at Note 20).

[vi]On 13 December 2016, the date of incorporation of Elsight Limited, the issued capital of Elsight Limited was 1 ordinary share at A$1. In January and February 2017 share splits occurred resulting in the division of the 1 ordinary share into 10,000,000 ordinary shares. As a result of the splits, 1,500,000 ordinary shares were issued to each of Lamma Nominees Pty Ltd and Yulia Uvarov <Techinvest Nominee A/C> and 2,325,000 shares were issued to GNat Pty Ltd. The total value of each lot of shares issued has been calculated at based upon the incorporation date capital of A$1.

Lamma Nominees Pty Ltd is a related party of Howard Digby by virtue of being controlled by his spouse.

Yulia Uvarov is the Trustee for Techinvest Nominees and is a related party of Anton Uvarov by virtue of being controlled by his spouse.

GNat Pty Ltd is an entity controlled by Nathan Barbarich.

[vii]Employee Share Plan Options issued (refer terms, conditions and valuations at Note 20).

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6: RELATED PARTY TRANSACTIONS

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

Details of loans made to the Group by directors and key management are set out below.

Name	Balance at the start of the year US$	Interest paid and payable for the year US$	Interest not charged US$	Repayments made during the year US$	Converted to equity during the year[i] US$	Balance at the end of the year US$	Highest indebtedness during the year US$
Directors:							
Nir Gabay	66,527	-	-	(66,527)	-	-	66,527
Howard Digby	25,000	(i)	(i)	-	(25,000)	-	25,000
Anton Uvarov	25,000	(i)	(i)	-	(25,000)	-	25,000

[i] Shares were issued in respect of the conversion of Elsight Limited convertible notes totaling A$25,000 each for Mr Digby and Mr Uvarov on completion of the Company's Initial Public Offer and admission to the ASX Official List. The conversion price was A$0.12 per share (a 40% discount to the offer issue price).

NOTE 7: 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:

	2017 US$	2016 US$
Auditor remuneration		
- Auditing and reviewing the financial reports (BDO) – Australia	28,395	1,080
- Auditing and reviewing the financial reports (KMPG) – Israel	32,980	12,160
- Auditing and reviewing the financial reports (Deloitte) – Israel	17,500	-
	78,875	13,240
Other non-audit remuneration		
- Investigating Accountant's Report (BDO) – Australia	10,891	-
- International and local tax support (KMPG) – Israel	16,700	-
	27,591	-

NOTE 8: EARNINGS/(LOSS) PER SHARE

	2017 US$	2016 US$
Earnings/ (Loss) per share (EPS)		
a) Profit/(Loss) used in calculation of basic EPS and diluted EPS	(3,119,570)	98,000
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.

NOTE 9 a : CASH AND CASH EQUIVALENTS	**2017**	**2016**
	US$	**US$**
Cash at bank	1,093,853	7,000
Total cash and cash equivalents in the statement of cash flows	1,093,853	7,000

The Group's exposure to the risks associated with cash are disclosed in Note 22.

NOTE 9 b : CASH FLOW INFORMATION	**2017**	**2016**
	US$	**US$**
Profit / (Loss) after income tax	(3,119,570)	98,000
Non-cash flows in loss after income tax		
Non-cash interest expenses	813,406	-
Share based payments expense	806,890	-
Depreciation	52,886	16,000
Loss/(gain) on sale of plant and equipment	14,453	(2,000)
Net finance expense	-	24,000
Changes in assets and liabilities		
Decrease/ (increase) in trade and other receivables	(243,638)	(57,000)
Decrease/ (increase) in inventory	127,749	(73,000)
(Decrease)/ increase in trade and other payables	(485,685)	121,000
(Decrease)/increase in provisions	(2,654)	4,000
Cash flow (used in) operating activities	(2,036,163)	131,000

Credit Standby Facilities

The Group has a credit standby facility with an Israeli bank in the amount of ILS 200,000 (US$58,000) of which nil was drawn down at year end.

Non-Cash investing and financing activities

The Group converted debt to equity as described in Notes 16 and 18.

The Group acquired plant and equipment with a value of US$84,919 through finance lease.

There were no other non-cash investing and financing activities during the year.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 10: TRADE AND OTHER RECEIVABLES	**2017**	**2016**
	US$	**US$**
CURRENT		
Trade and other receivables	378,984	79,000
Short term deposits	124,134	34,000
Pledged deposits	-	44,000
Prepaid expenses	65,627	-
	568,745	157,000

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 are disclosed in Note 22.

NOTE 11: INVENTORY	**2017**	**2016**
	US$	**US$**
Inventory at cost	203,486	310,000
	203,486	310,000

NOTE 12: OTHER CURRENT ASSETS	**2017**	**2016**
	US$	**US$**
Supplier advances	-	37,000
	-	37,000

NOTE 13: PLANT AND EQUIPMENT	**2017**	**2016**
	US$	**US$**
Cost	405,463	163,000
Accumulated depreciation	(150,728)	(104,000)
Net carrying amount	254,736	59,000

NOTE 13: PLANT AND EQUIPMENT

	Computers	Motor vehicles	Office furniture and equipment	Installations and leasehold improvements	Total
	US$	US$	US$	US$	US$
Balance at 1 January 2016	13,000	20,000	32,000	20,000	85,000
Additions	3,000	-	1,000	-	4,000
Disposals	-	(15,000)	-	-	(15,000)
Depreciation expense	(7,000)	(2,000)	(4,000)	(2,000)	(15,000)
Balance at 31 December 2016	9,000	3,000	29,000	18,000	59,000
Additions	25,748	152,219	13,960	64,916	256,843
Disposals	-	-	-	(14,453)	(14,453)
Depreciation expense	(9,945)	(15,787)	(22,605)	(2,652)	(50,989)
Foreign currency translation adjustments	1,209	3,370	(1,459)	1,215	4,335
Balance at 31 December 2017	26,012	142,802	18,896	67,026	254,736

NOTE 14: 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
	581,255	1,110,000

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 22.

(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 18(b) for details of shares issued and loss recognised.

NOTE 15: 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
	57,280	110,000
NON-CURRENT		
Long term bank loan, net of current maturities	126,656	65,000
	126,656	65,000

The Group's exposure to the risks associated with borrowings are disclosed in Note 22.

NOTE 16: CONVERTIBLE LOANS	**2017**	**2016**
	US$	**US$**
CURRENT		
Convertible loans	-	667,000
	-	667,000

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 18 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.

NOTE 17: PROVISIONS	**2017**	**2016**
	US$	**US$**
NON-CURRENT		
Accrued severance pay	59,340	42,000
Severance pay fund	(19,706)	(6,000)
	39,634	36,000
Opening net carrying amount	36,000	32,000
Increase in provision	3,634	-
Severance pay fund utilised	-	4,000
Closing net carrying amount	39,634	36,000

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18: ISSUED CAPITAL		**2017**	**2016**
		US$	**US$**
(a) Share Capital			
83,381,391 (31 December 2016: 20,000) fully paid ordinary shares	18b	5,091,738	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	-	-	-	(265,828)
Issue of 7,000,000 options to lead manager and seed investor, deemed capital raising cost (Note 20)	-	-	-	(489,566)
Closing balance at 31 December 2017		**83,381,391**	**-**	**5,091,738**

(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.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18: 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 19: RESERVES	**Ref**	**2017**	**2016**
a) Share Based Payment Reserve		**US$**	**US$**
45,819,000 (31 December 2016: nil) options on issue	19b	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 20)	7,000,000	489,566
Issue of ESOP options (Note 20)	8,608,000	215,585
Issue of ESOP performance options (Note 20)	30,000,000	586,980
Issue of ESOP options (Note 20)	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 Elsight Limited as at the acquisition date of 2 June 2017. Refer to Note 2.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 20: 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 Roee 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 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**).

  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

NOTE 20: 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	7-Jun-18	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. 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	806,890	-
Issue of 7,000,000 options to lead manager and seed investor, deemed capital raising cost	489,566	-
Total expense recognised in equity	489,566	-
Total share based payments expense	1,296,456	-

NOTE 21: 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.

NOTE 22: FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, trade and other debtors, trade and other payables and borrowings. The main purpose of non-derivative financial instruments is to raise finance for Group's operations.

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 and borrowings.

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 below:

	Floating Interest Rate	Fixed interest rate	Non-interest bearing	2017 Total
	US$	US$	US$	US$
Financial assets				
Cash and cash equivalents	679,572	-	414,281	1,093,853
Trade and other receivables	-	-	568,745	568,745
Total financial assets	679,572	-	983,026	1,662,598
Weighted average interest rate	0.9%	-	-	0.6%
Financial Liabilities				
Trade and other Payables	-	-	581,255	581,255
Borrowings	147,456	36,480	-	183,936
Total financial liabilities	147,456	36,480	581,255	765,191
Weighted average interest rate	3.3%	2.5%	-	3.1%
Net financial assets	532,116	36,480	401,771	897,407

NOTE 22: FINANCIAL INSTRUMENTS

	Floating Interest Rate	Fixed interest rate	Non-interest bearing	2016 Total
	US$	US$	US$	US$
Financial assets				
Cash and cash equivalents	-	-	7,000	7,000
Trade and other receivables	-	-	157,000	157,000
Total financial assets	-	-	164,000	164,000
Weighted average interest rate	-	-	-	-
Financial Liabilities				
Trade and other payables	-	-	1,110,000	1,110,000
Borrowings	175,000	-	-	175,000
Convertible loans	-	667,000	-	667,000
Total financial liabilities	175,000	667,000	1,110,000	1,952,000
Weighted average interest rate	2.00%	5.00%	-	1.89%
Net financial liabilities	(175,000)	(667,000)	(946,000)	(1,788,000)

Sensitivity Analysis

The following table illustrates sensitivities to the Consolidated Entity's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at reporting date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Movement in Profit	Movement in Equity
Year ended 31 December 2017	**US$**	**US$**
+/-1% in interest rates	297	297
Year ended 31 December 2016		
+/-1% in interest rates	810	810

(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 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	2017 US$	2016 US$
Cash and cash equivalents – AA Rated	9a	1,093,853	7,000
Trade and other receivables – no rating	10	568,745	157,000

NOTE 22: FINANCIAL INSTRUMENTS

Impaired trade receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor,
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. Impairment losses are recognised in profit or loss within selling, general and administrative expenses. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses.

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

	2017	2016
	US$	**US$**
Impairment losses		
- individually impaired receivables	-	-
- movement in provision for impairment	12,376	-
Reversal of previous impairment losses	-	-

As at 31 December 2017, trade receivables of US$27,033 (2016 – nil) 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:

	2017	2016
	US$	**US$**
Up to 3 months	2,410	-
3 to 6 months	22,529	-
Over 6 months	2,094	-
	27,033	-

(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:

NOTE 22: FINANCIAL INSTRUMENTS

2017	**Interest rate**	**Less than 6 months US$**	**6-12 months US$**	**1-2 years US$**	**2-5 years US$**	**Over 5 years US$**	**Total contractual cash flows US$**	**Carrying amount US$**
Financial liabilities at amortised cost								
Trade and other payables	-	581,255	-	-	-	-	581,255	581,255
Borrowings	3.1%	28,640	28,640	50,896	75,760	-	183,936	183,936
				-				
		609,895	28,640-	50,896	75,760	-	765,191	765,191

2016	**Interest rate**	**Less than 6 months US$**	**6-12 months US$**	**1-2 years US$**	**2-5 years US$**	**Over 5 years US$**	**Total contractual cash flows US$**	**Carrying amount US$**
Financial liabilities at amortised cost								
Trade and other payables	-	1,110,000	-	-	-	-	1,110,000	1,110,000
Borrowings	2%	55,000	55,000	30,000	35,000	-	175,000	175,000
		1,165,000	55,000	30,000	35,000	-	1,285,000	1,285,000

(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 (the functional currency), the New Israeli Shekel, the Australian Dollar and the Singapore Dollar.

The Company's policy is not to enter into any currency hedging transactions.

	New Israeli Shekels US$	**2017 Total US$**
Cash and cash equivalents	407,903	407,903
Trade and other receivables	501,153	501,153
Trade and other payables	(487,810)	(487,810)
Borrowings	(183,936)	(183,936)
Net exposure	237,310	237,310

NOTE 22: FINANCIAL INSTRUMENTS

	New Israeli Shekels	2016 Total
	US$	US$
Cash and cash equivalents	7,000	7,000
Trade and other receivables	157,000	157,000
Trade and other payables	(1,110,000)	(1,110,000)
Borrowings	(175,000)	(175,000)
Net exposure	(1,121,000)	(1,121,000)

NOTE 23: PARENT ENTITY FINANCIAL INFORMATION

The following information of the legal parent Elsight Limited has been prepared in accordance with Australian Accounting Standards and the accounting policies as outlined in Note 1.

(a) Financial Position of Elsight Limited

	2017	2016
	US$	US$
ASSETS		
Current assets	753,541	54,171
Non-current assets	704,729	-
TOTAL ASSETS	**1,458,270**	**54,171**
LIABILITIES		
Current liabilities	93,447	55,784
Non-current liabilities	-	-
TOTAL LIABILITIES	**93,447**	**55,784**
NET ASSETS/(LIABILITIES)	**1,364,823**	**(1,613)**
SHAREHOLDERS' EQUITY/(DEFICIT)		
Issued capital	5,085,588	-
Reserves	999,637	(5)
Accumulated Losses	(4,720,402)	(1,608)
SHAREHOLDERS' EQUITY/(DEFICIT)	**1,364,823**	**(1,613)**

(b) Statement of profit or loss and other comprehensive income

Loss for the year	(4,718,794)	(1,608)
Other comprehensive income	(18)	(5)
Total comprehensive loss	(4,718,812)	(1,613)

(c) Guarantees entered into by Elsight Limited for the debts of its subsidiary

There are no guarantees entered into by Elsight Limited.

(d) Contingent liabilities of Elsight Limited

There were no contingent liabilities as at 31 December 2017 (2016: Nil).

(e) Commitments by Elsight Limited

There were no commitments as at 31 December 2017 (2016: Nil).

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 24: CONTROLLED ENTITIES

The ultimate legal parent entity of the Group is Elsight Limited, incorporate and domiciled in Australia. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 1.

Controlled entity	Country of Incorporation	Percentage Owned	
		2017	2016
El-Sight Ltd	Israel	100%	-

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

NOTE 25: COMMITMENTS	2017 US$	2016 US$
Operating lease commitments:		
No longer than 1 year	193,229	4,812
Longer than 1 year and not longer than 5 years	368,017	-
Longer than 5 years	-	-
	561,246	4,812

The Group has an office lease in Israel that commenced on 1 January 2018 for a period of three years with the option to renew for a further three years at a rate of US$12,000 per month.

The Group has six automobile leases that commenced in 2017, each for a period of three years. Monthly rental payments range from US$1,695 to US$2,725 per lease.

NOTE 26: CONTINGENT LIABILITIES

The Group has no known contingent liabilities as at 31 December 2017.

NOTE 27: EVENTS SUBSEQUENT TO REPORTING DATE

Since the reporting date the following significant events have occurred:

- 08/01/2018 – Automotive Robotic Industry Ltd places order
- 11/01/2018 – First purchase order received from autonomous car sector
- 22/01/2018 – Elsight technology critical to protecting US vice president
- 22/02/2018 – Elsight releases new Omnisight product
- 05/03/2018 – Institutional placement closes oversubscribed, to raise A$9,005,189 (before expenses of the offer) from wholesale and institutional investors through the issue of 12,507,208 fully paid ordinary shares.

There were no other significant events after balance date.

NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

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 2017. Relevant Standards and Interpretations are outlined in the table below.

New/revised pronouncement	Explanation of amendments	Application Date of Standard	Application Date of Group
AASB 9 Financial Instruments	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially- reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. **Classification and measurement** AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. **Financial assets** a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise	1 January 2018	1 January 2018

NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

New/revised pronouncement	Explanation of amendments	Application Date of Standard	Application Date of Group
	from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. **Financial liabilities** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. **Impairment** The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.		
AASB 15 Revenue from Contracts with Customers	AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue – Barter Transactions Involving	1 January 2018	1 January 2018

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

New/revised pronouncement	Explanation of amendments	Application Date of Standard	Application Date of Group
	Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).		
AASB 16 Leases	The key features of AASB 16 are as follows: **Lessee accounting:** • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the **lease.** • AASB 16 contains disclosure requirements for lessees. **Lessor accounting:** • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.	1 January 2019	1 January 2019

NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

New/revised pronouncement	Explanation of amendments	Application Date of Standard	Application Date of Group
	• AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. **AASB 16 supersedes:** (a) AASB 117 Leases (b) Interpretation 4 Determining whether an Arrangement contains a Lease (c) SIC-15 Operating Leases-Incentives SIC-27 Evaluating the Substance of Transaction Involving the Legal Form of a Lease.		

The Group has decided not to early adopt any of the new and amended pronouncements. The impact of the above standards is yet to be determined unless noted otherwise above.

DIRECTORS' DECLARATION

In the Director's opinion:

1. The consolidated financial statements and notes set out on pages 20 to 58 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 (a);

   b) giving a true and fair view, the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

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 2017.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Mr Nir Gabay
Managing Director
28 March 2018

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Elsight Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Elsight Limited (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

(i) Giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; 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 Company in accordance with 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.

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.

Accounting for share-based payments

Key audit matter	*How the matter was addressed in our audit*
During the year ended 31 December 2017, the Group issued performance options to key management personnel and employees of the group which have been accounted for as share-based payments. Refer to notes 1 and 20 of the financial report for a description of the accounting policy and significant estimates and judgements applied to these arrangements. Share-based payments are a complex accounting area and due to the complex and judgemental estimates used in determining the fair value of the share-based payments, we consider the Group's accounting for share-based payments to be a key audit matter.	Our procedures included, but were not limited to the following: • Reviewing the relevant terms and conditions to obtain an understanding of the contractual nature of the share-based payment arrangements • Reviewed and evaluated management's assessment of the likelihood of achieving the non-market performance conditions attached to the share-based payments • Reviewing management's determination of the fair value of the share-based payments granted, considering the appropriateness of the valuation model used and assessing the valuation inputs using internal specialists where appropriate • Assessing the allocation of the share-based payment expense over the relevant vesting period • Assessing the adequacy of the Group's disclosures in Notes 1 and 20 of the financial report.

Accounting for capital reorganisation

Key audit matter	*How the matter was addressed in our audit*
On 2 June 2017 Elsight limited acquired 100% of the issued capital of El-sight Ltd, by issuing the shareholders of El-sight Ltd fully paid ordinary shares in Elsight Limited. The transaction has been accounted for as a capital reorganisation and not an acquisition, as the shareholders of El-sight Ltd are the same shareholders of Elsight Limited. Capital reorganisation transactions are a complex accounting area because there is no specific applicable accounting standards for these types of transactions. In the absence of specific guidance, management is required to use its judgement in developing and applying an accounting policy that is relevant and reliable. There is a risk in the financial statements that amounts are incorrectly recognised and/or inappropriately disclosed. Refer to Note 1 and 2 of the financial report for a description of the accounting policy and judgements applied to this transaction.	Our procedures included, but were not limited to the following: • Obtaining an understanding of the relevant agreements in line with management's assessment that the new company Elsight Limited has been set up to be combined with a business (El-sight Ltd) under a capital reorganisation and that therefore this does not meet the definition of a business. • Evaluating the appropriateness of the use of capital reorganisation accounting as it was applied to this transaction. • Assessing that the transaction was accounted for by using pre-combination book values, with no fair value uplift being recognised by El-sight Ltd on this transaction. • Assessing the adequacy of the Group's disclosures in respect of the accounting for this acquisition in Note 1 and 2 in the financial report, including the significant judgements involved and the accounting policy adopted.

Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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.

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 Company's ability 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 Company or to cease operations, or has 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 (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar2.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 in pages 11 to 18 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Elsight Limited, for the year ended 31 December 2017, 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.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 28 March 2018

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement is current as at 15 March 2018 and has been approved by the Board of the Company.

This Corporate Governance Statement discloses the extent to which the Company follows the recommendations set by the ASX Corporate Governance Council in its publication *Corporate Governance Principles and Recommendations 3rd Edition* (Recommendations). The Recommendations are not mandatory, however the Recommendations that have not been followed have been identified and reasons for not following them, along with what (if any) alternative governance practices have been adopted in lieu of the Recommendation.

The Company has adopted Corporate Governance Policies which provide written terms of reference for the Company's corporate governance practices. The Board of the Company has not yet formed an audit committee, nomination committee, risk management committee or remuneration committee.

The Company's Corporate Governance Policies are contained within the Corporate Governance Plan and available on the Company's website at www.el-sight.com

Principle 1: Lay solid foundations for management and oversight

Roles of the Board & Management
The role of the Board is to provide overall strategic guidance and effective oversight of management. The Board derives its authority to act from the Company's Constitution.

The Board is responsible for and has the authority to determine all matters relating to the strategic direction, policies, practices, establishing goals for management and the operation of the Company. The Board delegates responsibility for the day-to-day operations and administration of the Company to the Managing Director.

The role of management is to support the Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

In addition to matters it is expressly required by law to approve, the Board has reserved the following matters to itself:
- overseeing the Company, including its control and accountability systems;
- appointment, evaluation, rewarding and if necessary the removal of the Managing Director (or equivalent), the Company Secretary and senior management personnel;
- ratifying the appointment, and where appropriate, the removal, of senior executives;
- in conjunction with members of the senior management team, develop corporate objectives, strategies and operations plans and approve and appropriately monitor plans, new investments, major capital and operating expenditures, use of capital, acquisitions, divestitures and major funding activities;
- establishing appropriate levels of delegation to the executive Directors to allow them to manage the business efficiently;
- monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level, to understand at all times the financial and operating conditions of the Company, including the reviewing and approving of annual budgets;
- monitoring the performance of senior management, including the implementation of strategy, and ensuring appropriate resources are available to them;
- identifying areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- overseeing the management of safety, occupational health and environmental matters;
- satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, and internal control processes are in place and functioning appropriately;
- ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- reporting accurately to shareholders, on a timely basis; and
- ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted, and that its practice is consistent with, a number of guidelines including:
  - Code of Conduct;
  - Continuous Disclosure Policy;
  - Diversity Policy;
  - Performance Evaluation Practices;
  - Procedures for Selection and Appointment of Directors;

- Remuneration Policy;
- Risk Management Review Procedure and Internal Compliance and Control;
- Securities Trading Policy; and
- Shareholders Communication Strategy.

Subject to the specific authorities reserved to the Board under the Board Charter, the Board delegates to the Managing Director responsibility for the management and operation of Elsight. The Managing Director is responsible for the day-to-day operations, financial performance and administration of Elsight within the powers authorised to him from time-to-time by the Board. The Managing Director may make further delegation within the delegations specified by the Board and will be accountable to the Board for the exercise of those delegated powers.

Further details of Board responsibilities, objectives and structure are set out in the Board Charter which is contained within the Corporate Governance Place available on the Elsight website.

Board Committees
The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate committees at this time including audit and risk, remuneration or nomination committees, preferring at this stage of the Company's development, to manage the Company through the full Board of Directors. The Board assumes the responsibilities normally delegated to the audit and risk, remuneration and nomination Committees.

If the Company's activities increase, in size, scope and nature, the appointment of separate committees will be reviewed by the Board and implemented if considered appropriate.

Board Appointments
The Company undertakes comprehensive reference checks prior to appointing a director or putting that person forward as a candidate to ensure that person is competent, experienced, and would not be impaired in any way from undertaking the duties of director. The Company provides relevant information to shareholders for their consideration about the attributes of candidates together with whether the Board supports the appointment or re-election.

The terms of the appointment of a non-executive director, executive directors and senior executives are agreed upon and set out in writing at the time of appointment.

The Company Secretary
The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board, including agendas, Board papers and minutes, advising the Board and its Committees (as applicable) on governance matters, monitoring that the Board and Committee policies and procedures are followed, communication with regulatory bodies and the ASX and statutory and other filings.

Diversity
The Board has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender, age, ethnicity and cultural diversity. The Diversity Policy allows the Board to set measurable gender diversity objectives (if considered appropriate) and to assess annually both the objectives (if any have been set) and the Company's progress towards achieving them.

The Board considers that, due to the size, nature and stage of development of the Company, setting measurable objectives for the Diversity Policy at this time is not appropriate. The Board will consider setting measurable objectives as the Company increases in size and complexity.

The participation of women in the Company at the date of this report is as follows:

- Women employees in the Company 26%
- Women in senior management positions 16%
- Women on the Board 0%

The Company's Diversity Policy is available on its website.

Board & Management Performance Review
On an annual basis, the Board conducts a review of its structure, composition and performance.

The annual review includes consideration of the following measures:
- comparison of the performance of the Board against the requirements of the Board charter;
- assessment of the performance of the Board over the previous twelve months having regard to the corporate strategies, operating plans and the annual budget;
- review the Board's interaction with management;
- identification of any particular goals and objectives of the Board for the next year;
- review the type and timing of information provided to the directors; and
- identification of any necessary or desirable improvements to Board or committee charters.

The method and scope of the performance evaluation will be set by the Board and may include a Board self-assessment checklist to be completed by each Director. The Board may also use an independent adviser to assist in the review.

The Chairman has primary responsibility for conducting performance appraisals of Non-Executive Directors, in conjunction with them, having particular regard to:
- contribution to Board discussion and function;
- degree of independence including relevance of any conflicts of interest;
- availability for and attendance at Board meetings and other relevant events;
- contribution to Company strategy;
- membership of and contribution to any Board committees; and
- suitability to Board structure and composition.

The Board conducts an annual performance assessment of the Managing Director against agreed key performance indicators.

The Managing Director conducts an annual performance assessment of senior executives against agreed key performance indicators

Due to Elsight only listing in June 2017, no formal appraisal of the Board or Managing Director has been conducted.

Independent Advice
Directors have a right of access to all Company information and executives. Directors are entitled, in fulfilling their duties and responsibilities, to seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Principle 2: Structure the board to add value

Board Composition
During the financial year and as at the date of this report the Board was comprised of the following members:

Ret Gen Ami Shafran	Non-Executive Chairman (appointed 2 June 2017)
Mr Nir Gabay	Managing Director (appointed 2 June 2017)
Mr Howard Digby	Non-Executive Director and Chairman (appointed 13 December 2016)
Mr David Furstenberg	Non-Executive Director (appointed 2 June 2017)
Dr Anton Uvarov	Non-Executive Director (appointed 13 December 2016)
Mr Nathan Barbarich	Non-Executive Director (appointed 13 December 2016; ceased 2 June 2017)

The Board comprises of the majority of Non-Executive Directors.

Elsight has adopted a definition of 'independence' for Directors that is consistent with the Recommendations.

Nir Gabay is not considered to be independent as he is an executive director of the Company and in addition, he is also a substantial holder.

Board Selection Process
The Board considers that a diverse range of skills, backgrounds, knowledge and experience is required in order to effectively govern Elsight. The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review.

The Board is responsible for the nomination and selection of directors. The Board reviews the size and composition of the Board regularly and at least once a year as part of the Board evaluation process.

The Board will establish a Board Skills Matrix. The Board Skills Matrix will include the following areas of knowledge and expertise:

- strategic expertise;
- specific industry knowledge;
- accounting and finance;
- risk management;
- experience with financial markets; and
- investor relations.

Induction of New Directors and Ongoing Development
New Directors are issued with a formal Letter of Appointment that sets out the key terms and conditions of their appointment, including Director's duties, rights and responsibilities, the time commitment envisaged, and the Board's expectations regarding involvement with any Committee work.

An induction program is in place and new Directors are encouraged to engage in professional development activities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

Principle 3: Act ethically and responsibly

The Company has implemented a Code of Conduct, which provides a framework for decisions and actions in relation to ethical conduct in employment. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders.

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- maintain high levels of professional conduct;
- respect confidentiality and not misuse Company information, assets or facilities;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Conduct may face disciplinary action including, in the cases of serious breaches, dismissal. If an employee suspects that a breach of the Code of Conduct has occurred or will occur, he or she must report that breach to the Company Secretary, or in their absence, the Chairman. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

Principle 4: Safeguard integrity in corporate reporting

The Board as a whole fulfills to the functions normally delegated to the Audit Committee as detailed in the Audit Committee Charter.

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the

Company throughout the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Board receives regular reports from management and from external auditors. It also meets with the external auditors as and when required.

The external auditors attend Elsight's AGM and are available to answer questions from security holders relevant to the audit.

Prior approval of the Board must be gained for non-audit work to be performed by the external auditor. There are qualitative limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the lead engagement partner responsible for the audit not perform in that role for more than five years.

CEO and CFO Certifications
The Board, before it approves the entity's financial statements for a financial period, receives from its CEO and CFO (or, if none, the persons fulfilling those functions) a declaration provided in accordance with Section 295A of the Corporations Act that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Principle 5: Make timely and balanced disclosure

The Company has a Continuous Disclosure Policy which outlines the disclosure obligations of the Company as required under the ASX Listing Rules and Corporations Act. The policy is designed to ensure that procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which Company securities are traded.

The Board considers whether there are any matters requiring disclosure in respect of each and every item of business that it considers in its meetings. Individual Directors are required to make such a consideration when they become aware of any information in the course of their duties as a Director of the Company.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company.

The Board has designated the Company Secretary as the person responsible for communicating with the ASX. All key announcements at the discretion of the Managing Director are to be circulated to and reviewed by all members of the Board.

The Chairman, the Board, Managing Director and the Company Secretary are responsible for ensuring that:
a) company announcements are made in a timely manner, that announcements are factual and do not omit any material information required to be disclosed under the ASX Listing Rules and Corporations Act; and
b) company announcements are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Principle 6: Respect the rights of security holders

The Company recognises the value of providing current and relevant information to its shareholders. The Board of the Company aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:
- communicating effectively with shareholders through releases to the market via ASX, the company website, information posted or emailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to clear and understandable information about the Company; and
- making it easy for shareholders to participate in general meetings of the Company.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the

Company. These contact details are available on the "Corporate Directory" page of the Company's website.

Shareholders may elect to, and are encouraged to, receive communications from Elsight and Elsight's securities registry electronically. The contact details for the registry are available on the "Corporate Directory" page of the Company's website.

The Company maintains information in relation to its Constitution, governance documents, Directors and senior executives, Board and committee charters, annual reports and ASX announcements on the Company's website.

Principle 7: Recognise and manage risk

The Board is committed to the identification, assessment and management of risk throughout Elsight's business activities.

The Board is responsible for the oversight of the Company's risk management and internal compliance and control framework. The Company does not have an internal audit function. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and internal compliance and control framework. Elsight has established policies for the oversight and management of material business risks.

Elsight's Risk Management and Internal Compliance and Control Policy recognises that risk management is an essential element of good corporate governance and fundamental in achieving its strategic and operational objectives. Risk management improves decision making, defines opportunities and mitigates material events that may impact security holder value.

Elsight believes that explicit and effective risk management is a source of insight and competitive advantage. To this end, Elsight is committed to the ongoing development of a strategic and consistent enterprise wide risk management program, underpinned by a risk conscious culture.

Elsight accepts that risk is a part of doing business. Therefore, the Company's Risk Management and Internal Compliance and Control Policy is not designed to promote risk avoidance. Rather, Elsight's approach is to create a risk conscious culture that encourages the systematic identification, management and control of risks whilst ensuring we do not enter into unnecessary risks or enter into risks unknowingly.

Elsight assesses its risks on a residual basis; that is it evaluates the level of risk remaining and considering all the mitigation practices and controls. Depending on the materiality of the risks, Elsight applies varying levels of management plans.

The Board has required management to design and implement a risk management and internal compliance and control system to manage Elsight's material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure. The Company faces risks inherent to its business, including economic risks, which may materially impact the Company's ability to create or preserve value for security holders over the short, medium or long term. The Company has in place policies and procedures, including a risk management framework (as described in the Company's Risk Management and Internal Compliance and Control Policy), which is developed and updated to help manage these risks. The Board does not consider that the Company currently has any material exposure to environmental or social sustainability risks.

The Company's process of risk management and internal compliance and control includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect those risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

The Board review's the Company's risk management framework at least annually to ensure that it continues to effectively manage risk.

Management reports to the Board as to the effectiveness of Elsight's management of its material business risks at each Board meeting.

Principle 8: Remunerate fairly and responsibly

The Board as a whole fulfills to the functions normally delegated to the Remuneration Committee as detailed in the Remuneration Committee Charter.

Elsight has implemented a Remuneration Policy which was designed to recognise the competitive environment within which Elsight operates and also emphasise the requirement to attract and retain high caliber talent in order to achieve sustained improvement in Elsight's performance. The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Elsight.

The key principles are to:

- review and approve the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensure that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- fairly and responsibly reward executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectations in the market;
- remunerate fairly and competitively in order to attract and retain top talent;
- recognise capabilities and promote opportunities for career and professional development; and
- review and approve equity based plans and other incentive schemes to foster a partnership between employees and other security holders.

The Board determines the Company's remuneration policies and practices and assesses the necessary and desirable competencies of Board members. The Board is responsible for evaluating Board performance, reviewing Board and management succession plans and determines remuneration packages for the Managing Director, Non-Executive Directors and senior management based on an annual review.

Elsight's executive remuneration policies and structures and details of remuneration paid to directors and key management personnel (where applicable) are set out in the Remuneration Report.

Non-Executive Directors receive fees (including statutory superannuation where applicable) for their services, the reimbursement of reasonable expenses and, in certain circumstances options.

The maximum aggregate remuneration for Non-Executive Directors is $300,000 per annum as disclosed within the Company's constitution. The Directors set the individual Non-Executive Directors fees within the limit approved by shareholders.

Executive directors and other senior executives (where appointed) are remunerated using combinations of fixed and performance based remuneration. Fees and salaries are set at levels reflecting market rates and performance based remuneration is linked directly to specific performance targets that are aligned to both short and long term objectives.

The Company prohibits Directors and employees from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in the Company's securities to any other person.

Further details in relation to the company's remuneration policies are contained in the Remuneration Report, within the Directors' report.

ADDITIONAL ASX INFORMATION

The shareholder information set out below was applicable as at 12 March 2018.
As at 12 March 2018 there were 868 holders of Ordinary Fully Paid Shares.

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	% IC
IBI TRUST MANAGEMENT <NIR GABAY A/C>	26,052,974	31.25%
LEARNICON LLC	13,600,304	16.31%
CITICORP NOMINEES PTY LIMITED	3,658,945	4.39%
INTERVEST HK LIMITED	3,250,000	3.90%
IBI TRUST MANAGEMENT <ROEE KASHI A/C>	2,894,775	3.47%
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,581,643	3.10%
GNAT PTY LTD <G & N INVESTMENT A/C>	2,325,000	2.79%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,148,524	2.58%
JB TORO PTY LTD	2,121,470	2.54%
LAMMA NOMINEES PTY LTD	1,500,000	1.80%
AWZ HLS INVESTMENT FUND I LP	1,500,000	1.80%
YULIA UVAROVA <TECHINVEST NOMINEES A/C>	1,500,000	1.80%
DEAD KNICK PTY LTD	1,000,000	1.20%
MOSHE COHEN	916,667	1.10%
LEON FINK HOLDINGS PTY LTD	900,000	1.08%
MR TIMOTHY JOHN PEARS	789,500	0.95%
MR NICHOLAS FINLAYSON	600,000	0.72%
BT GLOBAL HOLDINGS PTY LTD <BT UNIT A/C>	375,000	0.45%
TERRA CAPITAL NEW HORIZONS FUND PTY LTD	340,000	0.41%
MR PAUL HENRI VERON & MRS JULIE ANNE VERON <DEAD KNICK S/F A/C>	300,000	0.36%
Totals	68,884,317	82.00%

SUBSTANTIAL HOLDERS

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 12 March 2018 are:

Name	No of Shares Held	% of Issued Capital
Nir Gabay[1]	26,052,974	31.25%
Learnicon LLC	13,600,304	16.31%

DISTRIBUTION OF EQUITY SECURITIES

Ordinary Fully Paid Shares

Holding Ranges	Holders	Total Units	% Issued Share Capital
1 - 1,000	147	95,262	0.11%
1,001 - 5,000	260	715,660	0.86%
5,001 - 10,000	171	1,418,785	1.70%
10,001 - 100,000	239	7,655,766	9.18%
100,001 - 9,999,999,999	51	73,495,918	88.15%
Totals	868	83,381,391	100.00%

Unmarketable Parcels – 76 Holders

RESTRICTED SECURITIES

As at 12 March 2018 the following shares are subject to escrow:

- 2,894,775 Ordinary Fully Paid Shares escrowed until 2 June 2018
- 48,483,955 Ordinary Fully Paid Shares escrowed until 8 June 2019
- 7,000,000 Options expiring 2 June 2020 @ $0.30 escrowed until 8 June 2019
- 8,608,000 Options expiring 2 June 2022 @ $0.20 voluntarily escrowed until 8 June 2019
- 29,595,000 Performance Options expiring 2 June 2022 @ $0.20 escrowed until 8 June 2019
- 405,000 Performance Options expiring 2 June 2022 @ $0.20 voluntarily escrowed until 8 June 2019

UNQUOTED SECURITIES

As at 12 March 2018, the following unquoted securities are on issue:

29,595,000 Performance Options[2] expiring 2 June 2022 @ $0.20 escrowed until 8 June 2019 - 1 Holder

Holders with more than 20%

Holder Name	Holding	% IC
IBI Trust Management <Nir Gabay A/C>	29,595,000	100.00%

405,000 Performance Options[2] expiring 2 June 2022 @ $0.20 voluntarily escrowed until 8 June 2019 - 1 Holder

Holders with more than 20%

Holder Name	Holding	% IC
Mr Roee Kashi	405,000	100.00%

[1] Securities are held beneficially and registered in the name of IBI Trust Management (Nir Gabay A/C>

[2] Details on the performance conditions surrounding the Performance Options are contained within the Directors' Report.

7,000,000 Options expiring 2 June 2020 @ $0.30 escrowed until 8 June 2019– 27 Holders
There are no Holders with more than 20%

8,608,000 Options expiring 2 June 2022 @ $0.20 voluntarily escrowed until 8 June 2019 – 1 Holder
Holders with more than 20%

Holder Name	Holding	% IC
Mr Roee Kashi	8,608,000	100.00%

211,000 Options expiring 9 October 2022 @ $0.60 – 1 Holder
Holders with more than 20%

Holder Name	Holding	% IC
IBI Trust Management	211,000	100.00%

25,000 Options expiring 14 November 2022 @ $1.08 – 1 Holder
Holders with more than 20%

Holder Name	Holding	% IC
IBI Trust Management	25,000	100.00%

ON-MARKET BUY BACK

There is currently no on-market buyback program.

ASX LISTING RULE 4.10.19

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of reinstatement of the Company's securities to quotation in a way consistent with its business objectives.