

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED  
ACN 092 708 364



**2014** | ANNUAL  
REPORT



# CONTENTS

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|   |    |
|---|----|
| Review of Operations  | 1  |
| Directors' Report   | 4  |
| Auditors' Report  | 14 |
| Directors' Declaration  | 17 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 18 |
| Consolidated Statement of Financial Position                            | 19 |
| Consolidated Statement of Changes in Equity                             | 20 |
| Consolidated Statement of Cash Flows                                    | 21 |
| Notes to and forming part of the Financial Statements                   | 22 |
| ASX Additional Information  | 65 |
| Twenty Largest Shareholders   | 67 |
| Corporate Governance Statement  | 68 |



## 1. RESULTS FOR FULL-YEAR ENDING 31 DECEMBER 2014

The consolidated entity incurred a net loss during the year of \$3,017,546 (2013: \$1,562,746 profit) on revenues of \$23,476,433 (2013: \$29,882,393).

Net cash provided by operating activities was \$1,721,216 (2013 - \$2,646,482 used by). As at 31 December 2014, the consolidated entity had cash of \$5,803,264 (2013 - \$4,048,005) of which \$254,146 (2013 - \$97,000) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted when the contract is concluded or renegotiated.

The operating loss for the 12 months ended at 31 December 2014 was within management expectations. As expected, a small profit in the second half of 2014 was not sufficient to overcome the first half loss of \$3,186,439, leading to a full year loss of \$3,017,546.

## 2. EOS DEFENCE SYSTEMS

This sector develops, markets, manufactures and supports remote weapon systems [RWS] and related products in global markets.

### New Products

There is escalation globally of conflicts where EOS products could make a strong contribution provided EOS can meet market expectations for reduced weight, improved performance and reduced prices. This requires new technology and new products.

During the period EOS achieved all its planned objectives for its two new RWS products:

#### A. R-400S Weapon System

The R-400S is a significantly upgraded version of the R-400 weapon system which was developed for the US Army and produced in quantity. The R-400S provides double the firepower at half the weight of any weapon system available previously.

#### B. Remote Turret System

The EOS turret has completed development, and met all customer performance requirements. The product has now successfully completed reliability testing and will be ready for production from late 2015.

## Markets

The growth markets for EOS defence exports are currently Asia and the Middle East. In both these markets EOS is well positioned to capture several programs.

EOS is in the latter stages of competition for three international contracts. In each case EOS, participating through a local partner, was shortlisted from a broad competition and has led the competition in performance and reliability trials over the past 18 months.

The final stage of competition will involve updated pricing proposals. These three programs are expected to proceed to contract award in late 2015 subject to the availability of funds to each customer.

Australia is expected to procure turrets for hundreds of armoured vehicles under its LAND 400 program, which will be awarded in 2017, and tenders were called by the Commonwealth on 19 February 2015. EOS intends to participate in this procurement.

The deployed base of EOS weapon systems world-wide is now generating increasing revenue for maintenance, upgrades and spare parts. This market is expected to grow into the future.

## 3. EOS SPACE SYSTEMS

This sector builds telescopes and dome enclosures and develops long-range space sensors to acquire data to support the provision by EOS of data and/or services in global space markets. EOS sensors are deployed and operated by EOS or its strategic partners to obtain data for commercial sale.

### Space Data

During 2013 EOS completed all developments required for commercialisation of its space tracking technology. These developments included customer-funded efforts to achieve the sensitivity, accuracy and cost-effectiveness required for achieving sustainable operations.

During 2014 the EOS space tracking sensor which had been under development for 10 years was accepted as a contributing sensor for the USAF Space Surveillance Network [SSN]. This is the first time a non-US sensor has been qualified to contribute data to the SSN.

At this point EOS committed its own funds to the construction of a new space tracking site in Western Australia to be equipped with the new EOS sensors to expand significantly the volume of space data available to EOS. This was announced on 5 August 2014.

EOS then entered into a strategic cooperation agreement with Lockheed Martin Corporation for the expansion of this new site in Western Australia with even more EOS sensors to be funded by Lockheed Martin. This was announced on 26 August 2014.

The new site is scheduled to be operational in early 2016. It will combine with other assets available to EOS and Lockheed Martin to significantly contribute to the space tracking capacity available to the commercial space industry globally, and with higher accuracy and responsiveness than other available data.

With current and proposed deployments of its proprietary sensors in EOS sites, EOS is well placed to become a significant provider of space data going forward. Further expansion of tracking infrastructure at other sites is likely.

EOS Space Systems has a backlog of funded orders of over \$20 million. This backlog will convert to revenue over the next 18 months.

There is now substantial momentum towards achievement of sufficient sensors and data under control of EOS and Lockheed Martin, acting in cooperation, for that team to provide risk reduction in space operations for space assets facing the highest risk from space debris. The value of protected assets will increase in future as more sites and sensors are added.

## Partnerships

EOS space sensors will be deployed to obtain data which will provide the basis for information-based services to be marketed to the space community. The core technologies which underpin the EOS space sensors can also be applied to future solutions for the removal of space debris.

Although development of the sensor technology was undertaken principally by EOS with some customer funding support, EOS plans to undertake the next development phases in collaboration with other space entities.

On 1 September 2014 EOS executed an agreement with the Commonwealth of Australia relating to the establishment of an international research collaboration in space technology. Under the agreement the Commonwealth will provide around \$20 million towards a 5-year research budget of \$60 million for developing technologies for mitigating and ultimately eliminating the threat from space debris.

Joining the Commonwealth and EOS in this collaboration are the Australian National University, the Royal Melbourne Institute of Technology, Optus, Lockheed Martin [USA] and the National Institute for Communications Technology [Japan]. The collaboration will be performed through an incorporated not-for-profit entity called the Space Environment Research Centre. Commercial benefits issuing from the research will be distributed amongst the collaboration participants according to their respective contributions.

EOS also collaborates with a diverse group of aerospace entities globally to facilitate customer access to EOS space data in those markets.

## 4. FORECAST AND OUTLOOK

Demand for advanced defence products is growing globally due to emerging threats and escalating conflict. This demand is limited by current constraints on government spending in most countries, combined with some restrictions on access to EOS products imposed by the Australian government. The net effect is generally positive growth but with demand emerging and subsiding as the cycles of threat and funding compete for influence.

New weapon system orders typically take 6 months to impact revenue and the current order backlog for defence systems products is below its long-term average, suggesting that revenue for 2015 will contract. This contraction will be offset by a reduction in costs for product development because key new products are now market-ready. EOS expects defence sector financial performance in 2015 to be comparable with 2014 with the outlook improving through 2015 as new products win sales. The reduction in value of the Australian dollar will support new sales.

The outlook for space sector is positive. EOS expects its space sector to break even in 2015 after expensing substantial costs relating to the establishment of a new tracking site in Western Australia.

# REVIEW OF OPERATIONS (CONT)

Financial uncertainties can adversely impact the governments which are EOS customers. The company cannot be certain that future customer procurements will continue as usual or that business conditions will not deteriorate from current expectations.

The financial statements have been prepared on the basis of a going concern as detailed in Note 1(a), however due to uncertainties related to future cash flows beyond a twelve month period, the auditors have included an emphasis of matter in their audit report in relation to going concern. The same emphasis of matter has been included in previous audit reports.



Ben Greene  
Chief Executive Officer  
26 March 2015

# DIRECTORS' REPORT

The directors of Electro Optic Systems Holdings Limited submit herewith the annual financial report of the company for the year ended 31 December 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

## Directors

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

| Name                  | Particulars   |
|-----------------------|---|
| Fred Bart             | Chairman (Age 60). He has been Chairman and Director of numerous public and private companies since 1980, specialising in manufacturing, property, technology and marketable securities. Mr Bart is Chairman of Immunovative Therapies Limited, an Israeli company involved in the manufacture of cancer vaccines for the treatment of most forms of cancer. He is a member of the Australian Institute of Company Directors and is a member of the Remuneration Committee. Appointed to the Board on 8 May 2000.   |
| Dr Ben Greene         | BE (Hons), Phd in Applied Physics (Age 64) is the Chief Executive Officer of Electro Optic Systems. Dr Greene was involved in the formation of Electro Optic Systems. He is published in the subject areas of weapon system design, laser tracking, space geodesy, quantum physics, satellite design, laser remote sensing, and the metrology of time. Dr Greene is a member of Australia's Prime Ministers Science, Engineering and Innovation Council (PMSEIC), CEO of the Cooperative Research Centre for Space Environment Management and Deputy Chair of the Western Pacific Laser Tracking Network (WPLTN). Appointed to the Board on 11 April 2002.  |
| Ian Dennis            | BA, C.A. (Age 57) is a Chartered Accountant with experience as director and secretary in various public listed companies and unlisted technology companies in Australia and overseas. He has been involved in the investment banking industry and stockbroking industry for the past twenty five years. Prior to that, he was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 8 May 2000. He is a member of the Australian Institute of Company Directors and is a member of the Audit Committee and Remuneration Committee. He is also company secretary of Electro Optic Systems Holdings Limited.  |
| Mark Ureda            | Non-executive director (Age 60). Appointed to the Board on 28 April 2005. Mark was vice president, Strategy and Technology for Northrop Grumman Corporation, a global defence company until August 2010. Mark is now Vice President and General Manager of the Harman Professional Loudspeaker Group. Mark received a bachelor's degree in Engineering from the University of California at Los Angeles, a master's degree in Acoustics from the Pennsylvania State University and a master's degree in Finance from the UCLA Graduate School of Management.  |
| Lt Gen Peter Leahy AC | Non-executive director (Age 62). Appointed to the Board on 4 May 2009. Peter Leahy AC retired from the Australian Army in July 2008 as a Lieutenant General in the position of Chief of Army. Among his qualification he holds a BA (Military Studies), a Master of Military Arts and Science and is a member of the Australian Institute of Company Directors. He is a Professor and the foundation Director of the National Security Institute at the University of Canberra. He is a director of Codan Limited, Citadel Group Limited, a member of the Defence South Australia Advisory Board, Chairman of the Red Shield Appeal in the ACT and the charity Soldier On and a Trustee of the Prince's Charities Australia. He is Chairman of the Audit Committee.                           |
| Kevin Scully          | Non-executive director (Age 57). Appointed to the Board on 19 September 2011. Kevin Scully has more than 30 years of experience in equities research and analysis, corporate advisory and related matters. He has worked in various positions such as the head of research and director of Schroders, HSBC and the Netresearch group (which he founded). Kevin is an advisor to two regulatory authorities of the Singaporean Government (Commercial Affairs Department and the Monetary Authority of Singapore) since 1999. In March 2014 he was appointed Adjunct Professor in the School of Human Development and Social Services at SIM University. Kevin is also a director of PNE Micron Limited and NTUC Income Insurance Co-Operative Limited. He is a member of the Audit Committee. |

The above named directors held office during and since the end of the financial year.



## Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year were as follows:

| Name                  | Company                                | Period of directorship                            |
|-----------------------|--|---|
| Fred Bart             | Audio Pixels Holdings Limited          | 5 September 2000 to date                          |
| Ian Dennis            | Audio Pixels Holdings Limited          | 5 September 2000 to date                          |
| Lt Gen Peter Leahy AC | Codan Limited<br>Citadel Group Limited | 19 September 2008 to date<br>27 June 2014 to date |
| Kevin Scully          | PNE Micron Holding Limited             | 11 April 2011 to date                             |

## Principal Activities

The principal activities of the consolidated entity are in the space and defence systems business.

The company is listed on the Australian Securities Exchange.

## Review of Operations

A detailed review of operations is included on pages 1 to 3 of this financial report.

## Changes to the State of Affairs

There was no significant changes in the state of affairs of the consolidated entity that occurred during the financial period.

## Subsequent Events

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

## Future developments

The company will continue to operate in the space and defence systems business.

Please see the review of operations for further details.

## Environmental Regulations

In the opinion of the directors the consolidated entity is in compliance with all applicable environmental legislation and regulations.

## Dividends

The directors recommend that no dividend be paid and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this report.

## Share Options

### Share options granted to directors and executives

During and since the end of the financial year no share options were granted to any directors of the company or consolidated entity as part of their remuneration. No options have been issued to executives since the end of the financial year.

### Share options on issue at year end or exercised during the year

There were no unissued shares or interests under option at year end and no options were exercised during the year.

There were no shares or interests issued during the financial year as a result of exercise of an option.

## Indemnification and Insurance of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred as such a Director or Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the coverage provided and the amount of the premium. The Company has agreed to indemnify the current Directors, Company Secretary and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its controlled entities, except where to do so would be prohibited by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not, during or since the financial year indemnified or agreed to indemnify an auditor of the company or of any related body corporate against any liability incurred as such an auditor.

## Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 14 Board meetings, 2 audit committee meetings and no Remuneration committee meetings were held.

| Directors             | Board of directors |          | Audit committee |          | Remuneration committee |          |
|-----------------------|--------------------|----------|-----------------|----------|------------------------|----------|
|                       | Held               | Attended | Held            | Attended | Held                   | Attended |
| Mr Fred Bart          | 14                 | 14       | -               | -        | -                      | -        |
| Dr Ben Greene         | 14                 | 14       | -               | -        | -                      | -        |
| Mr Ian Dennis         | 14                 | 14       | 2               | 2        | -                      | -        |
| Mr Mark Ureda         | 14                 | 14       | -               | -        | -                      | -        |
| Lt Gen Peter Leahy AC | 14                 | 13       | 2               | 2        | -                      | -        |
| Mr Kevin Scully       | 14                 | 12       | 2               | 2        | -                      | -        |



## Directors' Shareholdings

The following table sets out each Director's relevant interest in shares and options of the company or a related body corporate as at the date of this report.

| Directors             | Fully paid ordinary shares | Options |
|-----------------------|----------------------------|---------|
| Mr Fred Bart          | 5,309,075                  | -       |
| Dr Ben Greene         | 3,954,185                  | -       |
| Mr Ian Dennis         | 170,050                    | -       |
| Mr Mark Ureda         | -                          | -       |
| Lt Gen Peter Leahy AC | 15,000                     | -       |
| Mr Kevin Scully       | -                          | -       |

There has been no movement in Director shareholdings during the 2014 year.

## Remuneration Report (Audited)

The key management personnel of Electro Optic Systems Holdings Limited during the year were:

Mr Fred Bart (Chairman, Non executive director)

Dr Ben Greene (Chief Executive Officer and director)

Mr Ian Dennis (Non-executive director)

Mr Mark Ureda (Non-executive director)

Lt Gen Peter Leahy AC (Non-executive director)

Mr Kevin Scully (Non-executive director)

Mr Mark Bornholt (Chief Executive Officer of Defence Systems) (resigned 12 August 2014)

Dr Craig Smith (Chief Executive Officer of EOS Space Systems Pty Limited)

Mr Scott Lamond (Chief Financial Officer - Electro Optic Systems Pty Limited)

This report outlines the remuneration arrangements in place for Directors and Executives of the Group.

The Directors are responsible for remuneration policies and packages applicable to the Board members and executives of the Group. The Group has a separate Remuneration Committee. The broad remuneration policy is to ensure the remuneration package properly reflects the persons duties and responsibilities.

### Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior manager remuneration is separate and distinct.

### Non-Executive Director remuneration

#### Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

## Remuneration Report (cont)

### Structure

The Company's Constitution and the Australian Securities Exchange Listing Rules specify the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting of shareholders. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 31 May 2012, when shareholders approved a maximum aggregate remuneration of \$350,000 per year excluding options.

The amount of aggregate remuneration approved by shareholders, the manner in which it is apportioned amongst Directors, and the policy of granting options to Directors, are reviewed by directors at least every two years.

Each Non-Executive Director receives a fee for serving as a Director of the Company. No additional fees are paid to any Director for serving on a committee of the Board. A company associated with Mr Ian Dennis receives a fee in recognition of additional services provided to the Group.

## Executive Director and Senior Management remuneration

### Objective

The Group aims to award Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward Executives for Group and individual performance against targets set by reference to suitable benchmarks;
- align the interests of Executives with those of shareholders; and
- ensure that the total remuneration paid is competitive by market standards.

### Structure

The remuneration paid to Executives is set with reference to prevailing market levels and typically comprises a fixed salary and option component. Options are granted to Executives in line with their respective levels of experience and responsibility. Details of the amounts paid and the number of options granted to Executives are disclosed elsewhere in the Directors' Report.

### Employment contracts

There are no employment contracts in place with any Non-Executive Director of the Group. Executive Directors and Senior Management are employed under standard employment contracts which contain no unusual terms. Beyond accrued leave benefits, there are no other termination payments or golden parachutes for any directors or senior executives.

## Remuneration Report (cont)

### Director remuneration

The following tables disclose the remuneration of the directors of the Company:

| 2014                  | Short term          |                    | Post Employment      | Equity        | Other                    | Total   |
|-----------------------|---------------------|--------------------|----------------------|---------------|--------------------------|---------|
|                       | Salary & Fees<br>\$ | Non-monetary<br>\$ | Superannuation<br>\$ | Options<br>\$ | Long Term Benefits<br>\$ |         |
| Mr Fred Bart          | 61,000              | -                  | 5,719                | -             | -                        | 66,719  |
| Dr Ben Greene*        | 432,283             | -                  | 18,957               | -             | -                        | 451,240 |
| Mr Ian Dennis#        | 157,500             | -                  | 3,516                | -             | -                        | 161,016 |
| Mr Mark Ureda         | 40,875              | -                  | -                    | -             | -                        | 40,875  |
| Lt Gen Peter Leahy AC | 37,500              | -                  | 3,516                | -             | -                        | 41,016  |
| Mr Kevin Scully       | 40,875              | -                  | -                    | -             | -                        | 40,875  |
|                       | 770,033             | -                  | 31,708               | -             | -                        | 801,741 |

\* Executive Director during the financial year

# Includes fees for additional services provided of \$120,000 (2013: \$120,000)

| 2013                  | Short term          |                    | Post Employment      | Equity        | Other                    | Total   |
|-----------------------|---------------------|--------------------|----------------------|---------------|--------------------------|---------|
|                       | Salary & Fees<br>\$ | Non-monetary<br>\$ | Superannuation<br>\$ | Options<br>\$ | Long Term Benefits<br>\$ |         |
| Mr Fred Bart          | 61,000              | -                  | 5,566                | -             | -                        | 66,566  |
| Dr Ben Greene*        | 370,032             | 20,054             | 33,476               | -             | -                        | 423,562 |
| Mr Ian Dennis#        | 157,500             | -                  | 3,422                | -             | -                        | 160,922 |
| Mr Mark Ureda         | 40,875              | -                  | -                    | -             | -                        | 40,875  |
| Lt Gen Peter Leahy AC | 37,500              | -                  | 3,422                | -             | -                        | 40,922  |
| Mr Kevin Scully       | 40,875              | -                  | -                    | -             | -                        | 40,875  |
|                       | 707,782             | 20,054             | 45,886               | -             | -                        | 773,722 |

\* Executive Director during the financial year

# Includes fees for additional services provided of \$120,000 (2013: \$120,000)



## Remuneration Report (cont)

### Executive remuneration

No executives are employed by the holding company. The following table discloses the remuneration of the executives of the consolidated entity:

| 2014               | Salary & Fees<br>\$ | Short term<br>Non-monetary<br>\$ | Post Employment<br>Superannuation<br>\$ | Equity<br>Options<br>\$ | Other<br>Long Term<br>Benefits<br>\$ | Total<br>\$ |
|--------------------|---------------------|----------------------------------|---|-------------------------|--------------------------------------|-------------|
| Dr Craig Smith     | 210,000             | -                                | 19,012                                  | -                       | -                                    | 229,012     |
| Mr Mark Bornholt** | 136,286             | -                                | 13,181                                  | -                       | -                                    | 149,467     |
| Mr Scott Lamond    | 193,365             | -                                | 17,856                                  | -                       | -                                    | 211,221     |
|                    | 539,651             | -                                | 50,049                                  | -                       | -                                    | 589,700     |

\*\* Mark Bornholt was a full time executive until he resigned on 12 August 2014. Since 12 August 2014, a company associated with Mark Bornholt has received consulting fees for services rendered of \$20,067.

| 2013             | Salary & Fees<br>\$ | Short term<br>Non-monetary<br>\$ | Post Employment<br>Superannuation<br>\$ | Equity<br>Options<br>\$ | Other<br>Long Term<br>Benefits<br>\$ | Total<br>\$ |
|------------------|---------------------|----------------------------------|---|-------------------------|--------------------------------------|-------------|
| Dr Craig Smith   | 210,000             | -                                | 19,163                                  | -                       | -                                    | 229,163     |
| Mr Mark Bornholt | 210,000             | -                                | 18,575                                  | -                       | -                                    | 228,575     |
| Mr Scott Lamond  | 185,000             | -                                | 16,881                                  | -                       | -                                    | 201,881     |
|                  | 605,000             | -                                | 54,619                                  | -                       | -                                    | 659,619     |

Non-monetary includes the provision for motor vehicles and health benefits.

No options were granted to, or exercised by any director or executive during 2013 or 2014 or since the end of the financial year.

The following table sets out each key management personnel's equity holdings (represented by holdings of fully paid ordinary shares in Electro Optic Systems Holdings Limited).

| 2014                  | Balance at<br>1/1/14<br>No. | Granted as<br>remuneration<br>No. | Received on<br>exercise of<br>options<br>No. | Net other<br>change<br>No. | Balance at<br>31/12/14<br>No. |
|-----------------------|-----------------------------|-----------------------------------|--|----------------------------|-------------------------------|
| Mr Fred Bart          | 5,309,075                   | -                                 | -  | -                          | 5,309,075                     |
| Dr Ben Greene         | 3,954,185                   | -                                 | -  | -                          | 3,954,185                     |
| Mr Ian Dennis         | 170,050                     | -                                 | -  | -                          | 170,050                       |
| Mr Mark Ureda         | -                           | -                                 | -  | -                          | -                             |
| Lt Gen Peter Leahy AC | 15,000                      | -                                 | -  | -                          | 15,000                        |
| Mr Kevin Scully       | -                           | -                                 | -  | -                          | -                             |
| Mr Mark Bornholt      | -                           | -                                 | -  | -                          | -                             |
| Dr Craig Smith        | 89,450                      | -                                 | -  | -                          | 89,450                        |
| Mr Scott Lamond       | -                           | -                                 | -  | -                          | -                             |

## Remuneration Report (cont)

### Elements of remuneration related to performance

There are no performance conditions other than service attached to the above remuneration to directors and executives. Directors and senior executives receive options as disclosed in the below tables which are not subject to specific performance conditions other than service. The overall performance of the company as measured by the share price will determine whether the options are exercised and whether the director or executive receives any benefit from these options. The time service condition has been chosen by the Board as an appropriate condition as it helps in the retention and motivation of staff. Options issued to certain directors and executives are also subject to vesting provisions as disclosed below.

### Key management personnel option holdings

On 10 December 2009, The Directors' issued 1,800,000 unlisted options to executives and staff. The options issued to executives and staff had an exercise price of \$1.30 and expired on 8 December 2013. These options vested 20% after 12 months, 30% after 2 years and the balance after 3 years.

|                       | Balance at<br>1/1/14 | Granted as<br>remuneration | (Lapsed) | Balance at<br>31/12/13 | Balance<br>vested at<br>31/12/13 | Options<br>vested<br>during year |
|-----------------------|----------------------|----------------------------|----------|------------------------|----------------------------------|----------------------------------|
| 2014                  | No.                  | No.                        | No.      | No.                    | No.                              |                                  |
| Mr Fred Bart          | -                    | -                          | -        | -                      | -                                | -                                |
| Dr Ben Greene         | -                    | -                          | -        | -                      | -                                | -                                |
| Mr Ian Dennis         | -                    | -                          | -        | -                      | -                                | -                                |
| Mr Mark Ureda         | -                    | -                          | -        | -                      | -                                | -                                |
| Lt Gen Peter Leahy AC | -                    | -                          | -        | -                      | -                                | -                                |
| Mr Kevin Scully       | -                    | -                          | -        | -                      | -                                | -                                |
| Mr Mark Bornholt      | -                    | -                          | -        | -                      | -                                | -                                |
| Dr Craig Smith        | -                    | -                          | -        | -                      | -                                | -                                |
| Mr Scott Lamond       | -                    | -                          | -        | -                      | -                                | -                                |

|                       | Balance at<br>1/1/13 | Granted as<br>remuneration | (Lapsed)  | Balance at<br>31/12/13 | Balance<br>vested at<br>31/12/13 | Options<br>vested<br>during year |
|-----------------------|----------------------|----------------------------|-----------|------------------------|----------------------------------|----------------------------------|
| 2013                  | No.                  | No.                        | No.       | No.                    | No.                              |                                  |
| Mr Fred Bart          | -                    | -                          | -         | -                      | -                                | -                                |
| Dr Ben Greene         | -                    | -                          | -         | -                      | -                                | -                                |
| Mr Ian Dennis         | -                    | -                          | -         | -                      | -                                | -                                |
| Mr Mark Ureda         | -                    | -                          | -         | -                      | -                                | -                                |
| Lt Gen Peter Leahy AC | -                    | -                          | -         | -                      | -                                | -                                |
| Mr Kevin Scully       | -                    | -                          | -         | -                      | -                                | -                                |
| Mr Mark Bornholt      | -                    | -                          | -         | -                      | -                                | -                                |
| Dr Craig Smith        | 160,000              | -                          | (160,000) | -                      | -                                | -                                |
| Mr Scott Lamond       | 32,000               | -                          | (32,000)  | -                      | -                                | -                                |

## Remuneration Report (cont)

The Board policy is not to allow any person to hedge their exposure to risk in relation to the options granted. This policy may be reviewed should the options become in the money.

## Other transactions with key management personnel

During the year, the Company paid a total of \$66,719 (2013: \$66,566) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company received Nil (2013: \$9,822) from 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of shared Sydney office facilities.

During the year, the Company paid \$41,016 (2013: \$40,922) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Ian Dennis.

During the year, the Company paid \$120,000 (2013: \$120,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

During the year, the Company paid \$13,559 (2013: 11,927) to Audio Pixels Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

The table below sets out summary information about the company's earnings and movements in shareholder wealth for the last 5 financial years.

|                                | 31 December 2014 | 31 December 2013 | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
|                                | \$               | \$               | \$               | \$               | \$               |
| Revenue                        | 23,777,387       | 29,882,393       | 21,919,748       | 32,775,391       | 33,828,658       |
| Net profit / (loss) before tax | (3,017,546)      | 1,562,746        | (10,181,971)     | 180,188          | 3,175,142        |
| Net profit/(loss) after tax    | (3,017,546)      | 1,562,746        | (10,181,971)     | 180,188          | 3,175,142        |

|                              | 31 December 2014 | 31 December 2013 | 31 December 2012 | 31 December 2011 | 31 December 2010 |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
|                              | \$               | \$               | \$               | \$               | \$               |
| Share price at start of year | 0.42             | 0.30             | 0.55             | 1.35             | 1.05             |
| Share price at end of year   | 0.815            | 0.42             | 0.30             | 0.55             | 1.35             |
| Dividends paid               | -                | -                | -                | -                | -                |

## Audit Committee

The Board appointed three non-executive directors to form the committee, with a majority of independent directors and the Chairman being an independent person. The current members of the committee are Lt Gen Peter Leahy AC (Chairman), Mr Ian Dennis and Mr Kevin Scully.



## Non-audit Services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors have formed this view based on the fact that the nature and scope of each type of non-audit service provided means that the audit independence was not compromised.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are contained in Note 9 to the financial statements.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 14 of the annual report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis

Director

Dated at Sydney this 26 day of March 2015

The Board of Directors  
Electro Optic Systems Holdings Limited  
Suite 2, Level 12  
75 Elizabeth Street  
SYDNEY NSW 2000

26 March 2015

Dear Board Members

### **Electro Optic Systems Holdings Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Electro Optic Systems Holdings Limited.

As lead audit partner for the audit of the financial statements of Electro Optic Systems Holdings Limited for the year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Black  
Partner  
Chartered Accountants

## Independent Auditor's Report to the members of Electro Optic Systems Holdings Limited

### *Report on the Financial Report*

We have audited the accompanying financial report of Electro Optic Systems Holdings Limited, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 17 to 64.

### *Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Electro Optic Systems Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



### *Opinion*

In our opinion:

- (a) the financial report of Electro Optic Systems Holdings Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2014 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

### *Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$3,017,546. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's and the consolidated entity's ability to continue as going concerns and therefore whether they will be unable to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 12 of the directors' report for the year ended 31 December 2014. 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.

### *Opinion*

In our opinion the Remuneration Report of Electro Optic Systems Holdings Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*D. Black*

David Black  
Partner  
Chartered Accountants  
Sydney, 26 March 2015

# DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001; and
- (d) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis  
Director  
Dated at Sydney this 26 day of March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

|   | Note | Consolidated              |                           | Company                   |                           |
|---|------|---------------------------|---------------------------|---------------------------|---------------------------|
|   |      | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Revenue   | 2    | 23,476,433                | 29,882,393                | 16,862                    | 77,845                    |
| Changes in inventories of finished goods and work in progress         |      | 1,383,876                 | (1,031,378)               | -                         | -                         |
| Raw materials and consumables used                                    |      | (15,009,775)              | (13,366,167)              | -                         | -                         |
| Employee benefits expense   | 2(b) | (9,932,634)               | (10,705,460)              | (360,843)                 | (360,467)                 |
| Administration expenses   |      | (2,286,565)               | (2,420,883)               | (308,900)                 | (343,404)                 |
| Amortisation of intangibles   | 2(b) | -                         | -                         | -                         | -                         |
| Finance costs   | 2(b) | (23,454)                  | (82,464)                  | -                         | -                         |
| Depreciation and amortisation of property, plant and equipment        | 2(b) | (295,658)                 | (211,807)                 | -                         | (197)                     |
| Gain/(loss) on disposal of fixed assets                               | 2(b) | (668)                     | 43,891                    | -                         | (788)                     |
| Foreign exchange gains  | 2(b) | 693,815                   | 507,604                   | 936                       | 5,617                     |
| Occupancy costs   |      | (755,881)                 | (786,814)                 | (13,559)                  | -                         |
| Provision for non-recovery of loan                                    | 2(b) | -                         | -                         | (596,709)                 | (1,161,923)               |
| Other expenses  |      | (267,035)                 | (266,169)                 | -                         | -                         |
| <b>(Loss)/ Profit before income tax benefit</b>                       | 2    | <b>(3,017,546)</b>        | <b>1,562,746</b>          | <b>(1,262,213)</b>        | <b>(1,783,317)</b>        |
| Income tax benefit  | 4    | -                         | -                         | -                         | -                         |
| <b>(Loss)/ Profit for the period</b>                                  | 19   | <b>(3,017,546)</b>        | <b>1,562,746</b>          | <b>(1,262,213)</b>        | <b>(1,783,317)</b>        |
| <b>Other comprehensive income</b>                                     |      |                           |                           |                           |                           |
| <b>Items that may be reclassified subsequently to profit and loss</b> |      |                           |                           |                           |                           |
| Exchange differences arising on translation of foreign operations     |      | (284,267)                 | 20,222                    | -                         | -                         |
| <b>Total comprehensive (Loss)/ income for the period</b>              |      | <b>(3,301,813)</b>        | <b>1,582,968</b>          | <b>(1,262,213)</b>        | <b>(1,783,317)</b>        |
| <b>(Loss)/Earnings per share</b>                                      |      |                           |                           |                           |                           |
| Basic (cents per share)   | 3    | (5.3)                     | 2.7                       |                           |                           |
| Diluted (cents per share)   | 3    | (5.3)                     | 2.7                       |                           |                           |

Notes to the financial statements are included on pages 22 to 64.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2014

|                                      | Note | Consolidated        |                     | Company             |                     |
|--------------------------------------|------|---------------------|---------------------|---------------------|---------------------|
|                                      |      | December 2014<br>\$ | December 2013<br>\$ | December 2014<br>\$ | December 2013<br>\$ |
| <b>CURRENT ASSETS</b>                |      |                     |                     |                     |                     |
| Cash and cash equivalents            | 19   | 5,803,264           | 4,048,005           | 488,109             | 1,739,217           |
| Trade and other receivables          | 6    | 7,484,235           | 3,069,803           | 3,318               | 5,979               |
| Inventories                          | 7    | 1,477,427           | 5,320,861           | -                   | -                   |
| Other                                | 8    | 438,441             | 332,811             | -                   | -                   |
| <b>TOTAL CURRENT ASSETS</b>          |      | <b>15,203,367</b>   | <b>12,771,480</b>   | <b>491,427</b>      | <b>1,745,196</b>    |
| <b>NON-CURRENT ASSETS</b>            |      |                     |                     |                     |                     |
| Property, plant and equipment        | 10   | 233,833             | 461,305             | -                   | -                   |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <b>233,833</b>      | <b>461,305</b>      | <b>-</b>            | <b>-</b>            |
| <b>TOTAL ASSETS</b>                  |      | <b>15,437,200</b>   | <b>13,232,785</b>   | <b>491,427</b>      | <b>1,745,196</b>    |
| <b>CURRENT LIABILITIES</b>           |      |                     |                     |                     |                     |
| Trade and other payables             | 11   | 8,860,476           | 3,882,221           | 103,879             | 95,435              |
| Provisions                           | 12   | 5,058,587           | 4,535,627           | -                   | -                   |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <b>13,919,063</b>   | <b>8,417,848</b>    | <b>103,879</b>      | <b>95,435</b>       |
| <b>NON-CURRENT LIABILITIES</b>       |      |                     |                     |                     |                     |
| Provisions                           | 12   | 483,058             | 478,045             | -                   | -                   |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <b>483,058</b>      | <b>478,045</b>      | <b>-</b>            | <b>-</b>            |
| <b>TOTAL LIABILITIES</b>             |      | <b>14,402,121</b>   | <b>8,895,893</b>    | <b>103,879</b>      | <b>95,435</b>       |
| <b>NET ASSETS</b>                    |      | <b>1,035,079</b>    | <b>4,336,892</b>    | <b>387,548</b>      | <b>1,649,761</b>    |
| <b>EQUITY</b>                        |      |                     |                     |                     |                     |
| Issued capital                       | 15   | 75,383,567          | 75,383,567          | 75,383,567          | 75,383,567          |
| Reserves                             | 17   | 7,513,711           | 7,797,978           | 7,727,803           | 7,727,803           |
| Accumulated losses                   | 18   | (81,862,199)        | (78,844,653)        | (82,723,822)        | (81,461,609)        |
| <b>TOTAL EQUITY</b>                  |      | <b>1,035,079</b>    | <b>4,336,892</b>    | <b>387,548</b>      | <b>1,649,761</b>    |

Notes to the financial statements are included on pages 22 to 64.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

|   | Total<br>\$ | Accumulated<br>losses<br>\$ | Issued<br>capital<br>\$ | Foreign<br>currency<br>translation<br>reserve<br>\$ | Employee<br>equity settled<br>benefits<br>reserve<br>\$ |
|---|-------------|-----------------------------|-------------------------|---|---|
| <b>Consolidated</b>   |             |                             |                         |   |   |
| <b>2014</b>   |             |                             |                         |   |   |
| Balance at 1 January 2014   | 4,336,892   | (78,844,653)                | 75,383,567              | 70,175  | 7,727,803   |
| (Loss) for the year   | (3,017,546) | (3,017,546)                 | -                       | -   | -   |
| Exchange differences arising on translation of foreign operations | (284,267)   | -                           | -                       | (284,267)   | -   |
| Total comprehensive (loss) for the year                           | (3,301,813) | (3,017,546)                 | -                       | (284,267)   | -   |
| Balance at 31 December 2014                                       | 1,035,079   | (81,862,199)                | 75,383,567              | (214,092)   | 7,727,803   |
| <b>2013</b>   |             |                             |                         |   |   |
| Balance at 1 January 2013   | 2,753,924   | (80,407,399)                | 75,383,567              | 49,953  | 7,727,803   |
| Profit for the year   | 1,562,746   | 1,562,746                   | -                       | -   | -   |
| Exchange differences arising on translation of foreign operations | 20,222      | -                           | -                       | 20,222  | -   |
| Total comprehensive income for the year                           | 1,582,968   | 1,562,746                   | -                       | 20,222  | -   |
| Balance at 31 December 2013                                       | 4,336,892   | (78,844,653)                | 75,383,567              | 70,175  | 7,727,803   |
| <b>Company</b>  |             |                             |                         |   |   |
| <b>2014</b>   |             |                             |                         |   |   |
| Balance at 1 January 2014   | 1,649,761   | (81,461,609)                | 75,383,567              | -   | 7,727,803   |
| (Loss) for the year   | (1,262,213) | (1,262,213)                 | -                       | -   | -   |
| Total comprehensive income for the year                           | (1,262,213) | (1,262,213)                 | -                       | -   | -   |
| Balance at 31 December 2014                                       | 387,548     | (82,723,822)                | 75,383,567              | -   | 7,727,803   |
| <b>2013</b>   |             |                             |                         |   |   |
| Balance at 1 January 2013   | 3,433,078   | (79,678,292)                | 75,383,567              | -   | 7,727,803   |
| (Loss) for the year   | (1,783,317) | (1,783,317)                 | -                       | -   | -   |
| Total comprehensive income for the year                           | (1,783,317) | (1,783,317)                 | -                       | -   | -   |
| Balance at 31 December 2013                                       | 1,649,761   | (81,461,609)                | 75,383,567              | -   | 7,727,803   |

Notes to the financial statements are included on pages 22 to 64.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

|   | Note  | Consolidated              |                           | Company                   |                           |
|---|-------|---------------------------|---------------------------|---------------------------|---------------------------|
|   |       | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Cash flows from operating activities</b>   |       |                           |                           |                           |                           |
| Receipts from customers   |       | 25,281,338                | 25,626,116                | -                         | 9,822                     |
| Payments to suppliers and employees   |       | (23,555,726)              | (28,264,414)              | (671,081)                 | (679,305)                 |
| Interest received   |       | 19,058                    | 74,280                    | 16,682                    | 68,023                    |
| Interest and other costs of finance paid  |       | (23,454)                  | (82,464)                  | -                         | -                         |
| <b>Net cash inflows/(outflows) from operating activities</b>                                    | 19(b) | 1,721,216                 | (2,646,482)               | (654,399)                 | (601,460)                 |
| <b>Cash flows from investing activities</b>   |       |                           |                           |                           |                           |
| Advances (to) from wholly-owned controlled entities   |       | -                         | -                         | (596,709)                 | (1,161,923)               |
| Proceeds from sale of property, plant and equipment   |       | 455                       | 65,466                    | -                         | -                         |
| Payment for property, plant and equipment   |       | (77,139)                  | (143,264)                 | -                         | -                         |
| <b>Net cash (outflows) from investing activities</b>  |       | (76,684)                  | (77,798)                  | (596,709)                 | (1,161,923)               |
| <b>Cash flows from financing activities</b>   |       |                           |                           |                           |                           |
| Repayment of borrowings   |       | -                         | (117,223)                 | -                         | -                         |
| <b>Net cash (outflows) from financing activities</b>  |       | -                         | (117,223)                 | -                         | -                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                     |       | 1,644,532                 | (2,841,503)               | (1,251,108)               | (1,763,383)               |
| <b>Cash and cash equivalents at the beginning of the financial year</b>                         |       | 4,048,005                 | 6,686,194                 | 1,739,217                 | 3,502,600                 |
| <b>Effects of exchange rate fluctuations on the balances of cash held in foreign currencies</b> |       | 110,727                   | 203,314                   | -                         | -                         |
| <b>Cash and cash equivalents at the end of the financial year</b>                               | 19(a) | 5,803,264                 | 4,048,005                 | 488,109                   | 1,739,217                 |

Notes to the financial statements are included on pages 22 to 64.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

## 1. Summary of Accounting Policies

### Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001 and Accounting Standards and complies with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). The financial report includes the separate financial statements of the company and the consolidated financial statements of the group. Compliance with A-IFRS ensures that the financial statements and notes of the company and the consolidated entity comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Directors on 26 March 2015.

### Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant

risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The areas of judgement made by management are in the areas of asset impairment of property, plant and equipment, recoverability of deferred tax assets, inventory obsolescence, warranty and percentage completion of construction contracts.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

### (a) Going concern

The financial report has been prepared on the going concern basis which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a net loss during the year of \$3,017,546 (2013: \$1,562,746 profit). Net cash provided by operating activities was \$1,721,216 (2013 - \$2,646,482 used by). As at 31 December 2014, the consolidated entity had cash of \$5,803,264 (2013 - \$4,048,005) of which \$254,146 (2013 - \$97,000) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted if the contracts are concluded or renegotiated.

In the opinion of the directors, the ability of the company and consolidated entity to continue as going concerns and pay their debts as and when they become due and payable is dependent upon:

- the ability of the consolidated entity to deliver contracts on hand on time, to the required specification and within budgeted costs;
- the willingness of key military and government customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the group; and
- the ability to raise capital from existing or new shareholders should the need arise

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (a) Going concern (cont)

If the company and consolidated entity are unable to achieve successful outcomes in relation to the above matters, significant uncertainty would exist as to the ability of the company and consolidated entity to continue as going concerns and therefore, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

### (b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents includes restricted cash to the extent it relates to operating activities.

### (d) Construction contracts and work in progress

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Deferred revenue is represented by advance billings on contracts and the basis of recognition is the percentage of completion basis.

### (e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### (f) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

Defined contribution plans - Contributions to defined benefit contribution superannuation plans are expensed when incurred.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (g) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost less any impairment.

Other financial assets are classified into the following specified categories: held to maturity investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

#### Held to maturity investments

Bills of exchange are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

#### Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

### (h) Financial instruments issued by the company

#### Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### Interest

Interest is classified as an expense consistent with the statement of financial position classification of the related debt.

### (i) Foreign currency

#### Foreign currency transactions

All foreign currency transactions during the financial year are bought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period they arise.

#### Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

### (j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.



## 1. Summary of Accounting Policies (cont)

### (k) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income in the period in which it becomes receivable.

### (l) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### (m) Income tax

#### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (m) Income tax (cont)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of profit or loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Electro Optic Systems Holdings Limited is the head entity in

the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within the group' approach.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

There are no formal tax funding arrangements within companies within the tax-consolidated entity.

### (n) Intangible assets

#### Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible assets can be recognised, development expenditure is recognised as an expense in the period as incurred.

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

### (o) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (p) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### Consolidated entity as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

### Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

### (q) Payables

Trade payable and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

### (r) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

### (s) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of an item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual accounting period.

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.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (s) Property, plant and equipment (cont)

The following estimated useful lives are used in the calculation of depreciation:

|                                 |               |
|---------------------------------|---------------|
| Plant and equipment             | 5 to 15 years |
| Leasehold improvements          | 3 to 5 years  |
| Equipment under finance lease   | 3 to 5 years  |
| Office equipment                | 5 to 15 years |
| Furniture, fixture and fittings | 5 to 15 years |
| Motor vehicles                  | 3 to 5 years  |

### (t) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**Warranties** - Provisions for warranty costs are recognised as agreed in individual sales contracts, at the directors best estimate of the expenditure required to settle the consolidated entity's liability. During the period the directors determined to review the adequacy of the warranty provision. Following the review the warranty provision for military contracts was reviewed. The impact of this change was to reduce the loss for the year by \$136,082.

**Contract losses** - Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which

the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**Decommissioning cost**- a provision for decommissioning cost is recognised when there is a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the premises.

### (u) Revenue recognition

Construction revenue is recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

Revenue from contracts to provide services is recognised on a monthly basis in accordance with the services contracts.

Interest income is recognised as it accrues.

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

### (v) Share based payments to employees

Equity-settled share-based payments are measured at fair value at the date of the grant. Fair value is measured by use of a modified Cox-Rubenstein binomial model. The expected life used in the model has been adjusted, based on management best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (w) Application of New and Revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 1031 Materiality (2013)
- AASB 2012-3 Amendments to AASB 132 - Offsetting Financial Assets and Financial Liabilities
- AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures
- AASB 2013-9 Amendments to Conceptual Framework and Materiality - Part B
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

### Impact of the application of AASB 1031

Revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality.

The application of AASB 1031 has not had any material impact on the amounts recognised in the consolidated financial statements.

### (w) Application of New and Revised Accounting Standards (cont)

#### Impact of the application of AASB 2012-3

Addresses inconsistencies in current practice when applying the offsetting criteria in AASB 132 Financial Instruments: Presentation. Clarifies the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". This did not result in any changes to the consolidated financial statements.

#### Impact of the application of AASB 2013-3

Narrow-scope amendments to AASB 136 Impairment of Assets addressing the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

The application of AASB 2013-3 has not had any material impact on the amounts recognised in the consolidated financial statements.

#### Impact of the application of AASB 2013-9

Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and minor editorial amendments to various standards.

The application of AASB 2013-9 has not had any material impact on the amounts recognised in the consolidated financial statements.

#### Impact of the application of AASB 2011-4

Amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. As a result the Group only discloses the key management personnel compensation in total for each of the categories required by AASB 124.

Such disclosures are more in the nature of governance disclosures that are better dealt with as part of the Corporations Act 2001.

The application of AASB 2011-4 has not had any material impact on the amounts recognised in the consolidated financial statements, but has resulted in adjusted disclosures.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 1. Summary of Accounting Policies (cont)

### (w) Application of New and Revised Accounting Standards (cont)

#### Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| Standard/Interpretation  | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| AASB 2014-1 Amendments to Australian Accounting Standards<br>-Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles<br>-Part B: Defined Benefit Plans: Employee Contributions<br>-Part C: Materiality | 1 July 2014  | 31 Dec 2015   |
| AASB 2014-1 Amendments to Australian Accounting Standards<br>-Part D Consequential amendments arising from AASB 14<br>-Part E: Financial Instruments   | 1 Jan 2018   | 31 Dec 2018   |
| AASB 15 Revenue from Contracts with Customers and relevant amending standards  | 1 Jan 2017   | 31 Dec 2017   |
| AASB 9 Financial Instruments and relevant amending standards   | 1 Jan 2018   | 31 Dec 2018   |
| AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation   | 1 Jan 2016   | 31 Dec 2016   |

Other than in relation to AASB 15, the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the consolidated entity but may change disclosures made.

In relation to AASB 15 the directors are currently assessing the impact, if any, of adopting the Standard.

### (x) Comparative amounts

Where the Group changes the presentation or classification of items in its financial statements, it reclassifies the comparative amounts for consistency and comparability between financial years.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 2. (Loss)/Profit from Operations

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>(a) Revenue</b>  |                           |                           |                           |                           |
| Revenue from operations consisted of the following items: |                           |                           |                           |                           |
| Revenue from the sale of goods                            | 18,876,061                | 23,296,205                | -                         | -                         |
| Revenue from the rendering of services                    | 1,107,082                 | 1,947,178                 | -                         | -                         |
| Construction contract revenue                             | 3,472,580                 | 4,543,313                 | -                         | -                         |
|   | <b>23,455,723</b>         | <b>29,786,696</b>         | <b>-</b>                  | <b>-</b>                  |
| Interest revenue:   |                           |                           |                           |                           |
| Bank deposits   | 19,058                    | 74,280                    | 16,862                    | 68,023                    |
| Other   |                           |                           |                           |                           |
| Other   | 1,652                     | 21,417                    | -                         | 9,822                     |
|   | <b>23,476,433</b>         | <b>29,882,393</b>         | <b>16,862</b>             | <b>77,845</b>             |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 2. (Loss)/Profit from Operations (cont)

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| (b) (Loss)/ profit before income tax has been arrived at after charging the following expenses: |                           |                           |                           |                           |
| Borrowing costs   |                           |                           |                           |                           |
| Finance lease finance charges   | 23,454                    | 82,464                    | -                         | -                         |
| Interest paid - Other entities  | -                         | -                         | -                         | -                         |
|   | 23,454                    | 82,464                    | -                         | -                         |
| Depreciation and amortisation - property, plant and equipment                                   | 295,658                   | 211,807                   | -                         | 197                       |
| (Provision for non-recovery of loan - wholly-owned controlled entity                            | -                         | -                         | 596,709                   | 1,161,923                 |
| Loss/(Profit) on sale of property, plant and equipment  | 668                       | (43,891)                  | -                         | 788                       |
| Foreign exchange (gain)   | (693,815)                 | (507,604)                 | (936)                     | (5,617)                   |
| Operating lease rental expenses:  |                           |                           |                           |                           |
| Minimum lease payments  | 438,931                   | 501,730                   | -                         | -                         |
| Employee benefit expense:   |                           |                           |                           |                           |
| Contributions to defined contribution superannuation plans                                      | 814,829                   | 896,508                   | 12,751                    | 12,410                    |
| Other employee benefits   | 9,117,805                 | 9,808,952                 | 348,092                   | 348,057                   |
|   | 9,932,634                 | 10,705,460                | 360,843                   | 360,467                   |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 3. Earnings/(Loss) per Share

|  | Consolidated              |                           |
|--|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Basic earnings/(loss) per share                | (5.3 cents)               | 2.7 cents                 |
| <b>Basic Earnings/(Loss) per Share</b>         |                           |                           |
| Earnings/(loss) (a)                            | (3,017,546)               | 1,562,746                 |
| Weighted average number of ordinary shares (b) | 56,845,926                | 56,845,926                |

(a) Earnings/(loss) used in the calculation of basic earnings per share are the same as the net profit/(loss) in the statement of profit or loss and other comprehensive income.

(b) There are no potential ordinary shares and hence diluted earnings per share is the same as basic earnings per share.

## 4. Income Tax

(a) The prima facie income tax benefit on pre-tax accounting profit/(loss) from operations reconciles to the income tax benefit in the financial statements as follows:

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| (Loss)/ Profit from operations   | (3,017,546)               | 1,562,746                 | (1,262,213)               | (1,783,317)               |
| Income tax (benefit)/expense calculated at 30%                                 | (905,264)                 | 468,824                   | (378,664)                 | (534,995)                 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (142,495)                 | (50,380)                  | -                         | -                         |
| Non-deductible (assessable) provision for non-recovery of loan                 | -                         | -                         | 179,013                   | 348,577                   |
| Other non-deductible/ non assessable items                                     | 194,589                   | (133,706)                 | 7,403                     | (2,488)                   |
|  | (853,170)                 | 284,738                   | (192,248)                 | (188,906)                 |
| Unused tax losses and tax offsets not recognised as deferred tax assets        | 853,170                   | (284,738)                 | 192,248                   | 188,906                   |
| Income tax attributable to operating (Loss)/profit                             | -                         | -                         | -                         | -                         |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law, 25% in Germany, 17% in Singapore and the federal tax rate applicable in the USA and the State of Arizona has been assumed to approximate a combined rate 40% as their tax rates apply on a sliding scale. There has been no change in the corporate tax rate when compared with the previous reporting period.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 4. Income Tax (cont)

### (b) Unrecognised deferred tax balances

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| The following deferred tax assets have not been brought to account as assets |                           |                           |                           |                           |
| Tax losses - revenue   | 21,827,098                | 20,973,928                | 6,957,677                 | 6,765,429                 |
| Temporary differences  | 1,662,494                 | 1,504,102                 | -                         | -                         |
|  | 23,489,592                | 22,478,030                | 6,957,677                 | 6,765,429                 |

### Tax consolidation

#### Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Electro Optic Systems Holdings Limited. The members of the tax-consolidated entity group are identified in Note 21.

#### Nature of tax funding arrangements and tax sharing agreements

There are no formal tax funding or tax sharing arrangements within the tax-consolidated group.

## 5. Other financial assets

|   |   |   |             |             |
|---|---|---|-------------|-------------|
| Non-Current - at cost                     |   |   |             |             |
| Unlisted shares in controlled entities    |   |   |             |             |
| at cost                                   | - | - | 4,016,132   | 4,016,132   |
| provision for non recovery                | - | - | (4,016,132) | (4,016,132) |
|   | - | - | -           | -           |
| Carrying value at start of financial year | - | - | -           | -           |
| share options provided at no cost         | - | - | -           | 204,209     |
| provision for non recovery                | - | - | -           | (204,209)   |
|   | - | - | -           | -           |

The directors have assessed the carrying value of the unlisted shares held in controlled entities and have determined that, as at 31 December 2014, based upon the net asset position of the controlled entities, the current and historic trading results and the foreseeable future results from signed contracts on hand the investments are fully impaired.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 6. Trade and other receivables

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Current  |                           |                           |                           |                           |
| Trade receivables  | 6,412,992                 | 1,849,340                 | -                         | -                         |
| GST receivable   | 72,837                    | 60,339                    | 3,318                     | 5,979                     |
| Amounts due from customers under<br>construction contracts (Note 27) | 996,217                   | 1,153,498                 | -                         | -                         |
| Other debtors  | 2,189                     | 6,626                     | -                         | -                         |
|  | 7,484,235                 | 3,069,803                 | 3,318                     | 5,979                     |

The average credit period on sales of goods is 30 days. No interest is charged on late payments and no general allowance for doubtful debts has been made as most contracts are with governments and government agencies.

|                                 | Consolidated              |                           | Company                   |                           |
|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                 | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Ageing of past due not impaired |                           |                           |                           |                           |
| 31-60 days                      | 803,583                   | 851,463                   | -                         | -                         |
| 61-90 days                      | -                         | 17,954                    | -                         | -                         |
| 120 days +                      | -                         | 48,302                    | -                         | -                         |
|                                 | 803,583                   | 917,719                   | -                         | -                         |
| Ageing of past due and impaired |                           |                           |                           |                           |
| 120 days +                      | -                         | -                         | -                         | -                         |
| Total                           | -                         | -                         | -                         | -                         |

## 7. Current Inventories

|   |           |           |   |   |
|---|-----------|-----------|---|---|
| Raw materials - at net realisable value | 515,247   | 2,974,805 | - | - |
| Work in progress - at cost              | 962,180   | 2,346,056 | - | - |
|   | 1,477,427 | 5,320,861 | - | - |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 8. Other Assets

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Current  |                           |                           |                           |                           |
| Prepayments  | 438,441                   | 332,811                   | -                         | -                         |
| Non-current  |                           |                           |                           |                           |
| Amounts due from wholly-owned controlled entity    | -                         | -                         | 67,016,633                | 66,419,924                |
| Less Allowance for uncollectible amounts           | -                         | -                         | (67,016,633)              | (66,419,924)              |
|  | -                         | -                         | -                         | -                         |
| Movement in allowance for uncollectible amounts    |                           |                           |                           |                           |
| Balance at the beginning of the financial year     | -                         | -                         | 66,419,924                | 65,258,001                |
| Provision recognised in profit and loss            | -                         | -                         | 596,709                   | 1,161,923                 |
| Reversal of provision recognised in profit or loss | -                         | -                         | -                         | -                         |
| Balance at the end of the financial year           | -                         | -                         | 67,016,633                | 66,419,924                |

## 9. Auditors Remuneration

### (a) Auditor of the Parent Entity

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Audit or review of the financial report | 154,700 | 174,450 | 154,700 | 162,450 |
| Taxation services                       | 5,000   | 25,200  | 5,000   | 25,200  |
|   | 159,700 | 199,650 | 159,700 | 187,650 |

### (c) Other Auditor

|   |       |       |   |   |
|---|-------|-------|---|---|
| Audit or review of the financial report | 2,478 | 3,996 | - | - |
| Taxation services                       | 833   | 2,664 | - | - |
|   | 3,311 | 6,660 | - | - |

The auditor of Electro Optic Systems Holdings Limited is Deloitte Touche Tohmatsu.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 10. Property, Plant and Equipment

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| (a) Plant and equipment - at cost                     | 6,686,766                 | 6,623,866                 | -                         | -                         |
| Less accumulated depreciation and impairment          | (6,656,016)               | (6,497,766)               | -                         | -                         |
|   | 30,750                    | 126,100                   | -                         | -                         |
| (b) Leased assets - at cost                           | 13,550                    | 10,863                    | -                         | -                         |
| Less accumulated amortisation and impairment          | (13,550)                  | (10,863)                  | -                         | -                         |
|   | -                         | -                         | -                         | -                         |
| (c) Office equipment - at cost                        | 3,704,190                 | 3,343,929                 | -                         | -                         |
| Less accumulated depreciation and impairment          | (3,506,164)               | (3,013,886)               | -                         | -                         |
|   | 198,026                   | 330,043                   | -                         | -                         |
| (d) Furniture, fixtures and fittings - at cost        | 386,868                   | 316,896                   | -                         | -                         |
| Less accumulated depreciation and impairment          | (381,811)                 | (311,734)                 | -                         | -                         |
|   | 5,057                     | 5,162                     | -                         | -                         |
| (e) Leasehold improvements - at cost                  | 1,398,969                 | 1,220,701                 | -                         | -                         |
| Less accumulated depreciation and impairment          | (1,398,969)               | (1,220,701)               | -                         | -                         |
|   | -                         | -                         | -                         | -                         |
| (f) Motor vehicle -at cost                            | 25,369                    | 20,338                    | -                         | -                         |
| Less accumulated depreciation and impairment          | (25,369)                  | (20,338)                  | -                         | -                         |
|   | -                         | -                         | -                         | -                         |
| (g) Satellite - at cost                               | 7,000,000                 | 7,000,000                 | -                         | -                         |
| Less impairment                                       | (7,000,000)               | (7,000,000)               | -                         | -                         |
|   | -                         | -                         | -                         | -                         |
| Total net book value of Property, Plant and Equipment | 233,833                   | 461,305                   | -                         | -                         |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 10. Property, Plant and Equipment (cont)

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Cost</b>                               |                           |                           |                           |                           |
| <b>Plant and equipment</b>                |                           |                           |                           |                           |
| Balance at beginning of year              | 6,623,866                 | 5,905,447                 | -                         | -                         |
| Additions                                 | 63,738                    | 60,541                    | -                         | -                         |
| Disposals                                 | (115,594)                 | -                         | -                         | -                         |
| Net foreign currency exchange differences | 114,756                   | 657,878                   | -                         | -                         |
| Balance at end of year                    | 6,686,766                 | 6,623,866                 | -                         | -                         |
| <b>Leased assets</b>                      |                           |                           |                           |                           |
| Balance at beginning of year              | 10,863                    | 361,997                   | -                         | -                         |
| Asset transfer                            | -                         | (324,074)                 | -                         | -                         |
| Disposals                                 | -                         | (28,450)                  | -                         | -                         |
| Net foreign currency exchange differences | 2,687                     | 1,390                     | -                         | -                         |
| Balance at end of year                    | 13,550                    | 10,863                    | -                         | -                         |
| <b>Office equipment</b>                   |                           |                           |                           |                           |
| Balance at beginning of year              | 3,343,929                 | 2,755,422                 | -                         | 15,048                    |
| Additions                                 | 13,401                    | 82,723                    | -                         | -                         |
| Asset transfers                           | -                         | 324,074                   | -                         | -                         |
| Disposals                                 | (9,440)                   | (38,189)                  | -                         | (15,048)                  |
| Net foreign currency exchange differences | 356,300                   | 219,899                   | -                         | -                         |
| Balance at end of year                    | 3,704,190                 | 3,343,929                 | -                         | -                         |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 10. Property, Plant and Equipment (cont)

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Furniture, fixtures and fittings</b>   |                           |                           |                           |                           |
| Balance at beginning of year              | 316,896                   | 280,703                   | -                         | -                         |
| Net foreign currency exchange differences | 69,972                    | 36,193                    | -                         | -                         |
| Balance at end of year                    | 386,868                   | 316,896                   | -                         | -                         |
| <b>Leasehold improvements</b>             |                           |                           |                           |                           |
| Balance at beginning of year              | 1,220,701                 | 1,128,493                 | -                         | -                         |
| Net foreign currency exchange differences | 178,268                   | 92,208                    | -                         | -                         |
| Balance at end of year                    | 1,398,969                 | 1,220,701                 | -                         | -                         |
| <b>Motor vehicle</b>                      |                           |                           |                           |                           |
| Balance at beginning of year              | 20,338                    | 17,736                    | -                         | -                         |
| Net foreign currency exchange differences | 5,031                     | 2,602                     | -                         | -                         |
| Balance at end of year                    | 25,369                    | 20,338                    | -                         | -                         |
| <b>Satellite</b>                          |                           |                           |                           |                           |
| Balance at beginning of year              | 7,000,000                 | 7,000,000                 | -                         | -                         |
| Balance at end of year                    | 7,000,000                 | 7,000,000                 | -                         | -                         |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 10. Property, Plant and Equipment (cont)

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Accumulated Depreciation/<br/>Amortisation/Impairment</b> |                           |                           |                           |                           |
| <b>Plant and equipment</b>                                   |                           |                           |                           |                           |
| Balance at beginning of year                                 | (6,497,766)               | (5,755,546)               | -                         | -                         |
| Depreciation   | (150,395)                 | (95,835)                  | -                         | -                         |
| Disposals  | 114,486                   | -                         | -                         | -                         |
| Net foreign currency exchange differences                    | (122,341)                 | (646,385)                 | -                         | -                         |
| Balance at end of year                                       | (6,656,016)               | (6,497,766)               | -                         | -                         |
| <b>Leased plant and equipment</b>                            |                           |                           |                           |                           |
| Balance at beginning of year                                 | (10,863)                  | (144,845)                 | -                         | -                         |
| Amortisation expense   | -                         | (2,678)                   | -                         | -                         |
| Transfers  | -                         | 129,788                   | -                         | -                         |
| Disposals  | -                         | 8,263                     | -                         | -                         |
| Net foreign currency exchange differences                    | (2,687)                   | (1,391)                   | -                         | -                         |
| Balance at end of year                                       | (13,550)                  | (10,863)                  | -                         | -                         |
| <b>Office equipment</b>                                      |                           |                           |                           |                           |
| Balance at beginning of year                                 | (3,013,886)               | (2,589,636)               | -                         | (14,063)                  |
| Depreciation   | (145,158)                 | (113,189)                 | -                         | (197)                     |
| Transfers  | -                         | (129,788)                 | -                         | -                         |
| Disposals  | 9,425                     | 36,802                    | -                         | 14,260                    |
| Net foreign currency exchange differences                    | (356,545)                 | (218,075)                 | -                         | -                         |
| Balance at end of year                                       | (3,506,164)               | 3,013,886                 | -                         | -                         |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 10. Property, Plant and Equipment (cont)

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Furniture, fixtures and fittings</b>   |                           |                           |                           |                           |
| Balance at beginning of year              | (311,734)                 | (275,436)                 | -                         | -                         |
| Depreciation                              | (105)                     | (105)                     | -                         | -                         |
| Net foreign currency exchange differences | (69,972)                  | (36,193)                  | -                         | -                         |
| Balance at end of year                    | (381,811)                 | (311,734)                 | -                         | -                         |
| <b>Leasehold improvements</b>             |                           |                           |                           |                           |
| Balance at beginning of year              | (1,220,701)               | (1,128,493)               | -                         | -                         |
| Net foreign currency exchange differences | (178,268)                 | (92,208)                  | -                         | -                         |
| Balance at end of year                    | (1,398,969)               | (1,220,701)               | -                         | -                         |
| <b>Motor vehicle</b>                      |                           |                           |                           |                           |
| Balance at beginning of year              | (20,338)                  | (17,736)                  | -                         | -                         |
| Net foreign currency exchange differences | (5,031)                   | (2,602)                   | -                         | -                         |
| Balance at end of year                    | (25,369)                  | (20,338)                  | -                         | -                         |
| <b>Satellite</b>                          |                           |                           |                           |                           |
| Balance at beginning of year              | (7,000,000)               | (7,000,000)               | -                         | -                         |
| Balance at end of year                    | (7,000,000)               | (7,000,000)               | -                         | -                         |

Aggregate depreciation, impairment and amortisation allocated during the period is recognised as an expense and disclosed in Note 2 to the financial statements.

### Impairment of property, plant and equipment

The consolidated entity has assessed the carrying amount of plant and equipment and determined an impairment (reversal) charge for the year of Nil (2013: Nil). The basis to assess for any potential impairment was fair value less cost for disposal and fair value determined by reference to an active market for second hand manufacturing equipment.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 11. Current trade and other payables

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Trade payables  | 1,978,851                 | 2,358,432                 | 5,017                     | 18,976                    |
| Accruals  | 743,894                   | 1,084,797                 | 98,862                    | 76,459                    |
| Amounts due to customers under construction contracts (Note 27) | 6,137,731                 | 438,992                   | -                         | -                         |
|   | 8,860,476                 | 3,882,221                 | 103,879                   | 95,435                    |

The average credit period on purchases of goods is 30 days and no interest is payable on goods purchased within agreed credit terms. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 12. Provisions

### Current

|                             |           |           |   |   |
|-----------------------------|-----------|-----------|---|---|
| Employee benefits (Note 14) | 2,364,350 | 2,135,760 | - | - |
| Contract losses             | 311,193   | 286,084   | - | - |
| Decommissioning costs       | 250,000   | 250,000   | - | - |
| Warranty (Note 13)          | 2,133,044 | 1,863,783 | - | - |
|                             | 5,058,587 | 4,535,627 | - | - |

### Non-current

|                             |         |         |   |   |
|-----------------------------|---------|---------|---|---|
| Employee Benefits (Note 14) | 483,058 | 478,045 | - | - |
|-----------------------------|---------|---------|---|---|

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 12. Provisions (cont)

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Movement in contract loss provision      |                           |                           |                           |                           |
| Balance at 1 January                     | 286,084                   | 222,191                   | -                         | -                         |
| Additional provision recognised          | 25,109                    | 63,893                    | -                         | -                         |
| Reductions resulting from re-measurement | -                         | -                         | -                         | -                         |
| Balance as at 31 December                | 311,193                   | 286,084                   | -                         | -                         |

The provision for contract losses is based on assessment by management of the additional costs to complete existing contracts not recoverable from the customer.

|                                       |   |           |   |   |
|---------------------------------------|---|-----------|---|---|
| Movement in contract credit provision |   |           |   |   |
| Balance at 1 January                  | - | 308,776   | - | - |
| Additional provision recognised       | - | (308,776) | - | - |
| Balance as at 31 December             | - | -         | - | - |

The provision is for an agreed credit to be provided to a customer.

|                                   |         |         |   |   |
|-----------------------------------|---------|---------|---|---|
| Movement on decommissioning costs |         |         |   |   |
| Balance at 1 January              | 250,000 | 250,000 | - | - |
| Balance as at 31 December         | 250,000 | 250,000 | - | - |

The provision for decommissioning costs relate to an obligation to dismantle and refurbish a telescope at a future date.

## 13. Warranty Provisions

|  |           |           |   |   |
|--|-----------|-----------|---|---|
| Movement in warranty provision           |           |           |   |   |
| Balance at 1 January                     | 1,863,783 | 1,507,027 | - | - |
| Reductions resulting from re-measurement | (526,842) | (356,539) | - | - |
| Additional provisions recognised         | 796,103   | 713,295   | - | - |
| Balance as at 31 December                | 2,133,044 | 1,863,783 | - | - |

The provision for warranty claims represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be required under the consolidated entity's 12-month warranty program for military products and telescopes. The estimate has been made on the basis of historical industry accepted warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 14. Employee Benefits

The aggregate employee benefits liability recognised in the financial statements is as follows:

Provision for employee entitlements

|                       | Consolidated              |                           | Company                   |                           |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                       | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Current (Note 12)     | 2,364,350                 | 2,135,760                 | -                         | -                         |
| Non-Current (Note 12) | 483,058                   | 478,045                   | -                         | -                         |

## 15. Issued capital

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Balance at the beginning of the financial year - Ordinary shares | 75,383,567 | 75,383,567 | 75,383,567 | 75,383,567 |
| Balance at the end of the financial year                         | 75,383,567 | 75,383,567 | 75,383,567 | 75,383,567 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

| Fully Paid Ordinary Shares                 | Number     | Number     | Number     | Number     |
|--|------------|------------|------------|------------|
| Balance at the beginning of financial year | 56,845,926 | 56,845,926 | 56,845,926 | 56,845,926 |
| Balance at end of financial year           | 56,845,926 | 56,845,926 | 56,845,926 | 56,845,926 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 16. Directors and Employee Share Option Plan

### (a) Unlisted Options issued under the Employee Share Option Plan

The consolidated entity has an ownership-based compensation scheme for employees (including directors) of the company. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting, employees with more than three months service with the company may be granted options to purchase ordinary shares at exercise prices determined by the directors based on market prices at the time the issue of options were made.

Each share option converts to one ordinary share in Electro Optic Systems Holdings Limited. No amounts are paid or payable by the recipient on receipt of the options. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of expiry.

The number of options granted is determined by the directors and takes into account the company's and individual achievements against both qualitative and quantitative criteria.

On 28 June 2002, shareholders approved the adoption of an Employee Share Option Plan.

On 10 December 2009 Directors approved the issue of 1,800,000 unlisted options to staff at an exercise price of \$1.30 exercisable on or before 8 December 2013.

### (b) Unlisted Options issued under the Employee Share Option Plan

|  | 2014   |                                    | 2013        |                                    |
|--|--------|------------------------------------|-------------|------------------------------------|
|  | Number | Weighted average exercise price \$ | Number      | Weighted average exercise price \$ |
| Balance at the beginning of the financial year (i) | -      | -                                  | 1,025,000   | 1.30                               |
| Granted during the year (ii)                       | -      | -                                  | -           | -                                  |
| Exercised during the year (iii)                    | -      | -                                  | -           | -                                  |
| Lapsed during the year (iv)                        | -      | -                                  | (1,025,000) | 1.30                               |
| Balance at the end of the financial year (v)       | -      | -                                  | -           | -                                  |
| Exercisable at end of the year                     | -      | -                                  | -           | -                                  |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 16. Directors and Employee Share Option Plan (cont)

(b) Unlisted Options issued under the Employee Share Option Plan (cont)

(i) Balance at the beginning of the year

|               | Number    | Grant date | Expiry date | Exercise Price | Fair value at grant date |
|---------------|-----------|------------|-------------|----------------|--------------------------|
| <b>2014</b>   |           |            |             |                |                          |
| Staff options | -         | -          | -           | -              | \$-                      |
| <b>2013</b>   |           |            |             |                |                          |
| Staff options | 1,025,000 | 10/12/09   | 8/12/13     | \$1.30         | \$987,075                |

Staff and Director options carry no rights to dividends and no voting rights.

(ii) Granted during the year

There were no options issued during 2014 or 2013.

(iii) Exercised during the year

There were no options exercised during 2014 or 2013.

(iv) Lapsed during the year

|             | Number of Options Lapsed | Grant Date | Exercise Date | Expiry Date | Exercise Price | No. of Shares Issued | Fair Value Received | Fair Value of Shares at Date of Issue |
|-------------|--------------------------|------------|---------------|-------------|----------------|----------------------|---------------------|---------------------------------------|
| <b>2014</b> |                          |            |               |             |                |                      |                     |                                       |
| Staff       | -                        | -          | -             | -           | -              | -                    | -                   | -                                     |
| <b>2013</b> |                          |            |               |             |                |                      |                     |                                       |
| Staff       | 1,025,000                | 10/12/09   | -             | 8/12/13     | \$1.30         | -                    | -                   | -                                     |

(v) Balance at the end of the financial year

|               | Number | Grant date | Expiry date | Exercise Price | Fair value at grant date |
|---------------|--------|------------|-------------|----------------|--------------------------|
| <b>2014</b>   |        |            |             |                |                          |
| Staff options | -      | -          | -           | -              | -                        |
| <b>2013</b>   |        |            |             |                |                          |
| Staff options | -      | 10/12/09   | 8/12/13     | \$1.30         | \$Nil                    |

Staff and Director options carry no rights to dividends and no voting rights.

All the options granted to staff during 2009 vested over a three year period with 20% vesting after 12 months, a further 30% after 2 years and the balance after 3 years. No options have been issued subsequently.

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 16 to the financial statements.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 17. Reserves

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Foreign currency translation           | (214,092)                 | 70,175                    | -                         | -                         |
| Employee equity-settled benefits       | 7,727,803                 | 7,727,803                 | 7,727,803                 | 7,727,803                 |
|  | 7,513,711                 | 7,797,978                 | 7,727,803                 | 7,727,803                 |
| <b>Foreign currency translation</b>    |                           |                           |                           |                           |
| Balance at beginning of financial year | 70,175                    | 49,953                    | -                         | -                         |
| Translation of foreign operations      | (284,267)                 | 20,222                    | -                         | -                         |
| Balance at end of financial year       | (214,092)                 | 70,175                    | -                         | -                         |

Exchange differences relating to the translation from US dollars, being the functional currency of the consolidated entity's foreign controlled entities in the USA, Euros, being the functional currency of the consolidated entity's foreign controlled entity in Germany and Singaporean dollars, being the functional currency of the consolidated entity's foreign controlled entity in Singapore, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect to translating the net assets of foreign operations) are reclassified to profit or loss on disposal of the foreign operation.

|   | Consolidated              | Consolidated              | Company                   | Company                   |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Employee equity-settled benefits</b> |                           |                           |                           |                           |
| Balance at beginning of financial year  | 7,727,803                 | 7,727,803                 | 7,727,803                 | 7,727,803                 |
| Share based payment                     | -                         | -                         | -                         | -                         |
| Balance at end of financial year        | 7,727,803                 | 7,727,803                 | 7,727,803                 | 7,727,803                 |

The employee equity-settled benefits reserve arises on the grant of share options to directors and executives under the Employee Share Option plan. Further information about share-based payments to employees is made in note 16 to the financial statements. Items included in employee equity-settled benefits reserve will not be reclassified subsequently to profit or loss.

## 18. Accumulated Losses

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Balance at beginning of financial year                          | (78,844,653)              | (80,407,399)              | (81,461,609)              | (79,678,292)              |
| Net profit/ (loss) attributable to members of the parent entity | (3,017,546)               | 1,562,746                 | (1,262,213)               | (1,783,317)               |
| Balance at end of financial year                                | (81,862,199)              | (78,844,653)              | (82,723,822)              | (81,461,609)              |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 19. Notes to the Cash Flow Statement

### (a) Reconciliation of Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

|                           | Consolidated              |                           | Company                   |                           |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                           | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Cash and cash equivalents | 5,803,264                 | 4,048,005                 | 488,109                   | 1,739,217                 |

### (b) Reconciliation of (Loss)/profit for the year to net cash flows from operating activities

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Profit/ (Loss) for the period   | (3,017,546) | 1,562,746   | (1,262,213) | (1,783,317) |
| Loss/(profit) on disposal of fixed assets                                 | 668         | (43,891)    | -           | 788         |
| Depreciation of fixed assets  | 295,658     | 211,807     | -           | 197         |
| Foreign exchange movements  | (387,164)   | (196,409)   | -           | -           |
| Provision for non-recovery of loan  | -           | -           | 596,709     | 1,161,923   |
| <b>(Increase)/decrease in assets</b>                                      |             |             |             |             |
| Current receivables   | (4,414,432) | (1,194,907) | 2,661       | 21,004      |
| Inventories   | 3,843,434   | (1,465,011) | -           | -           |
| Other current assets  | (105,630)   | 256,128     | -           | -           |
| <b>Increase/(decrease) in liabilities</b>                                 |             |             |             |             |
| Provisions  | 527,973     | 114,919     | -           | -           |
| Current trade and other payables  | (379,581)   | 884,739     | 8,444       | (2,055)     |
| Other   | (340,903)   | 572,823     | -           | -           |
| Deferred income and amounts due to customers under construction contracts | 5,698,739   | (3,349,426) | -           | -           |
| Net cash (outflows)/ inflows from operating activities                    | 1,721,216   | (2,646,482) | (654,399)   | (601,460)   |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 20. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 24.

(b) Key management personnel compensation

The aggregate compensation of the key management personnel of the company is set out below:

|                          | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
|--------------------------|---------------------------|---------------------------|
| Short term benefits      | 1,309,684                 | 1,332,836                 |
| Post employment benefits | 81,757                    | 100,505                   |
|                          | 1,391,441                 | 1,433,341                 |

(c) Key management personnel equity holdings (represented by holdings of fully paid ordinary shares in Electro Optic Systems Holdings Limited)

|                       | Balance at<br>1/1/14<br>No. | Granted as<br>remuneration<br>No. | Received on<br>exercise of<br>options<br>No. | Net other<br>change<br>No. | Balance at<br>31/12/14<br>No. |
|-----------------------|-----------------------------|-----------------------------------|--|----------------------------|-------------------------------|
| <b>2014</b>           |                             |                                   |  |                            |                               |
| Mr Fred Bart          | 5,309,075                   | -                                 | -  | -                          | 5,309,075                     |
| Dr Ben Greene         | 3,954,185                   | -                                 | -  | -                          | 3,954,185                     |
| Mr Ian Dennis         | 170,050                     | -                                 | -  | -                          | 170,050                       |
| Mr Mark Ureda         | -                           | -                                 | -  | -                          | -                             |
| Lt Gen Peter Leahy AC | 15,000                      | -                                 | -  | -                          | 15,000                        |
| Mr Kevin Scully       | -                           | -                                 | -  | -                          | -                             |
| Mr Mark Bornholt      | -                           | -                                 | -  | -                          | -                             |
| Dr Craig Smith        | 89,450                      | -                                 | -  | -                          | 89,450                        |
| Mr Scott Lamond       | -                           | -                                 | -  | -                          | -                             |

|                       | Balance at<br>1/1/13<br>No. | Granted as<br>remuneration<br>No. | Received on<br>exercise of<br>options<br>No. | Net other<br>change<br>No. | Balance at<br>31/12/13<br>No. |
|-----------------------|-----------------------------|-----------------------------------|--|----------------------------|-------------------------------|
| <b>2013</b>           |                             |                                   |  |                            |                               |
| Mr Fred Bart          | 5,309,075                   | -                                 | -  | -                          | 5,309,075                     |
| Dr Ben Greene         | 3,954,185                   | -                                 | -  | -                          | 3,954,185                     |
| Mr Ian Dennis         | 170,050                     | -                                 | -  | -                          | 170,050                       |
| Mr Mark Ureda         | -                           | -                                 | -  | -                          | -                             |
| Lt Gen Peter Leahy AC | 15,000                      | -                                 | -  | -                          | 15,000                        |
| Mr Kevin Scully       | -                           | -                                 | -  | -                          | -                             |
| Mr Mark Bornholt      | -                           | -                                 | -  | -                          | -                             |
| Dr Craig Smith        | 89,450                      | -                                 | -  | -                          | 89,450                        |
| Mr Scott Lamond       | -                           | -                                 | -  | -                          | -                             |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 20. Related party disclosures (cont)

### (d) Key management personnel option holdings

|                       | Balance at<br>1/1/14 | Granted as<br>remuneration | Exercised<br>(Lapsed) | Balance at<br>31/12/14 | Balance<br>vested and<br>exercisable<br>at 31/12/14 | Options<br>vested<br>during year |
|-----------------------|----------------------|----------------------------|-----------------------|------------------------|---|----------------------------------|
| 2014                  | No.                  | No.                        | No.                   | No.                    | No.   |                                  |
| Mr Fred Bart          | -                    | -                          | -                     | -                      | -   | -                                |
| Dr Ben Greene         | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Ian Dennis         | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Mark Ureda         | -                    | -                          | -                     | -                      | -   | -                                |
| Lt Gen Peter Leahy AC | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Kevin Scully       | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Mark Bornholt      | -                    | -                          | -                     | -                      | -   | -                                |
| Dr Craig Smith        | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Scott Lamond       | -                    | -                          | -                     | -                      | -   | -                                |

|                       | Balance at<br>1/1/13 | Granted as<br>remuneration | Exercised<br>(Lapsed) | Balance at<br>31/12/13 | Balance<br>vested and<br>exercisable<br>at 31/12/13 | Options<br>vested<br>during year |
|-----------------------|----------------------|----------------------------|-----------------------|------------------------|---|----------------------------------|
| 2013                  | No.                  | No.                        | No.                   | No.                    | No.   |                                  |
| Mr Fred Bart          | -                    | -                          | -                     | -                      | -   | -                                |
| Dr Ben Greene         | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Ian Dennis         | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Mark Ureda         | -                    | -                          | -                     | -                      | -   | -                                |
| Lt Gen Peter Leahy AC | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Kevin Scully       | -                    | -                          | -                     | -                      | -   | -                                |
| Mr Mark Bornholt      | -                    | -                          | -                     | -                      | -   | -                                |
| Dr Craig Smith        | 160,000              | -                          | (160,000)             | -                      | -   | -                                |
| Mr Scott Lamond       | 32,000               | -                          | (32,000)              | -                      | -   | -                                |
| Mr Hugo Keyner        | 160,000              | -                          | (160,000)             | -                      | -   | -                                |

The Company did not issue any options during the year ended 31 December 2010, 2011, 2012, 2013 and 2014 to Key management personnel. Refer to Note 16 for further details of options outstanding.

## 20. Related party disclosures (cont)

(e) Transactions with other related parties

Other related parties includes:

- the parent entity;
- entities with significant influence over the consolidated entity; and
- subsidiaries.

Amounts receivable from entities in the wholly-owned group are disclosed in note 8 to the financial statements.

Certain entities within the group have lent money to other entities within the wholly-owned group on an interest free basis. The amounts receivable by the ultimate parent entity in the wholly-owned group are disclosed in note 8 to the financial statements. The ultimate parent entity in the wholly-owned group has provided for this amount based upon the net asset position of the controlled entities.

(f) Other transactions with key management personnel

During the year, the Company paid a total of \$66,719 (2013: \$66,566) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company received Nil (2013: \$9,822) from 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of shared Sydney office facilities.

During the year, the Company paid \$41,016 (2013: \$40,922) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Ian Dennis.

During the year, the Company paid \$120,000 (2013: \$120,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

During the year, the Company paid \$13,559 (2013: 11,927) to Audio Pixels Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

(g) Parent entity

The parent entity in the consolidated group is Electro Optic Systems Holdings Limited.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 21. Controlled Entities

| Name of Entity                            | Country of Incorporation | December 2014 % | December 2013 % |
|---|--------------------------|-----------------|-----------------|
| <b>Parent Entity</b>                      |                          |                 |                 |
| Electro Optic Systems Holdings Limited    | Australia #              |                 |                 |
| <b>Controlled Entities</b>                |                          |                 |                 |
| Electro Optic Systems Pty Limited         | Australia #              | 100             | 100             |
| Fire Control Systems Pty Limited          | Australia #              | 100             | 100             |
| FCS Technology Holdings Pty Limited       | Australia #              | 100             | 100             |
| EOS Space Systems Pty Limited             | Australia #              | 100             | 100             |
| EOS Optronics GmbH                        | Germany                  | 100             | 100             |
| EOS Defense Systems Pte Limited           | Singapore                | 100             | 100             |
| EOS USA, Inc. (Inc in Nevada)             | USA                      | 100             | 100             |
| EOS Technologies, Inc. (Inc in Arizona)   | USA                      | 100             | 100             |
| EOS Defense Systems, Inc (Inc in Arizona) | USA                      | 100             | 100             |

# These companies form part of the Australian consolidated tax entity.

All entities are audited by Deloitte Touche Tohmatsu apart from EOS Defense Systems Pte Limited.

## 22. Contingent Liabilities

Entities within the consolidated entity are involved in contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the group.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 23. Commitments

### (a) Capital commitments

An entity within the group has committed to spend up to \$5 million under an agreement on capital infrastructure.

|   | Consolidated              |                           | Company                   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| (b) Operating lease commitments   |                           |                           |                           |                           |
| Non-cancellable operating leases contracted for but not recognised in the financial statements: |                           |                           |                           |                           |
| Payable:  |                           |                           |                           |                           |
| not later than one year   | 247,219                   | 279,490                   | -                         | -                         |
| later than one year and not later than five years   | -                         | -                         | -                         | -                         |
| later than five years   | -                         | -                         | -                         | -                         |
|   | 247,219                   | 279,490                   | -                         | -                         |

## Operating Leases

### Leasing arrangements

Operating leases relate to:

Premises at 2500 N. Tucson Boulevard, Suite 100, Tucson Arizona with a lease term which expires on 30 September 2015. There is no option to renew after 30 September 2015 and future lease payments are fixed under the contract. There is no option to purchase the property.

Premises at 2112 N. Dragoon, Units 11, 12 and 19 Tucson Arizona are subject to an expired lease. The company occupies the property on a month to month basis and there is no make good requirement.

Premises in Queanbeyan, Australia for a 5 year period to 31 December 2008 with a 5 year option. The Company has the first right of refusal in respect of the purchase of the property. The Company is on a month to month basis whilst a new lease is negotiated.

Premises at EOS House at Mt Stromlo, Australia with a lease term which expires on 31 December 2015. There is an option to renew after 31 December 2015 and future lease payments are fixed under a contract. There is no option to purchase the property.

Premises at 34 Lowe Street, Suite 401, Level 4 Queanbeyan are the subject of an expired lease. The company occupies the property on a month to month basis and there is no make good requirement.

Shared premises in Sydney which are on a month to month arrangement with Audio Pixels Holdings Limited, a company associated with directors Mr Fred Bart and Mr Ian Dennis.

## 24. Subsequent Events

On 6 March 2015, the consolidated entity announced the award of a \$6.5 million contract for the refurbishment and upgrade of Australian Defence Force remote weapon systems.

Apart from the above, the Directors are not aware of any significant subsequent events since the end of the financial period and up to the date of this report.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 25. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, borrowings, finance leases, cash and short term deposits.

Due to the small size of the group significant risk management decisions are taken by the board of directors. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group does not use derivative financial instruments to hedge these risk exposures.

The directors consider that the carrying amount of financial assets and liabilities recognised in these financial statements approximate their fair values.

### Risk Exposures and Responses

#### (a) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash holdings.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

|                           | Consolidated |            | Company    |            |
|---------------------------|--------------|------------|------------|------------|
|                           | 2014<br>\$   | 2013<br>\$ | 2014<br>\$ | 2013<br>\$ |
| <b>Financial assets</b>   |              |            |            |            |
| Cash and cash equivalents | 5,803,264    | 4,048,005  | 488,109    | 1,739,217  |

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

At 31 December 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax (loss) and equity would have been affected as follows:

| Judgements of reasonably possible movements | Post Tax (Loss) Higher/(Lower) |            | Equity Higher/(Lower) |            |
|---|--------------------------------|------------|-----------------------|------------|
|   | 2014<br>\$                     | 2013<br>\$ | 2014<br>\$            | 2013<br>\$ |
| Consolidated                                |                                |            |                       |            |
| +1% (100 basis points)                      | 58,033                         | 40,480     | 58,033                | 40,480     |
| -.5% (50 basis points)                      | (29,016)                       | (20,240)   | (29,016)              | (20,240)   |
| Company                                     |                                |            |                       |            |
| +1% (100 basis points)                      | 4,881                          | 17,392     | 4,881                 | 17,392     |
| -.5% (50 basis points)                      | (2,441)                        | (8,696)    | (2,441)               | (8,696)    |

The movements in profits are due to lower interest rates on cash balances. The cash balances were higher in 2014 than in 2013 and accordingly the sensitivity is higher.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## (b) Foreign currency risk

As a result of purchases of inventory denominated in United States Dollars, the Group's statement of financial position can be affected significantly by movements in the US\$/A\$ exchange rates. Exchange rates are managed within approved policy parameters using natural hedges and no derivatives are used.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating entity in currencies other than the functional currency.

The policy of the Group is to convert surplus foreign currencies to Australian dollars. The group also holds cash deposits in US dollars to secure US dollar bank guarantees to overseas customers.

At 31 December 2014, the Group had the following exposure to US\$ foreign currency:

|                              | Consolidated |            | Company    |            |
|------------------------------|--------------|------------|------------|------------|
|                              | 2014<br>\$   | 2013<br>\$ | 2014<br>\$ | 2013<br>\$ |
| <b>Financial assets</b>      |              |            |            |            |
| Cash and cash equivalents    | 4,745,674    | 1,252,409  | 18,200     | 7,979      |
| Trade and other receivables  | 4,827,713    | 1,811,154  | -          | -          |
|                              | 9,573,387    | 3,063,563  | 18,200     | 7,979      |
| <b>Financial liabilities</b> |              |            |            |            |
| Trade and other payables     | 471,873      | 1,125,216  | -          | -          |
| Net exposure                 | 9,101,514    | 1,938,347  | 18,200     | 7,979      |

All US\$ denominated financial instruments were translated to A\$ at 31 December 2014 at the exchange rate of 0.8158 (2013: 0.8874).

At 31 December 2014, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgements of reasonably possible movements | Post Tax Profit<br>Higher/(Lower) |            | Equity<br>Higher/(Lower) |            |
|---|-----------------------------------|------------|--------------------------|------------|
|   | 2014<br>\$                        | 2013<br>\$ | 2014<br>\$               | 2013<br>\$ |
| <b>Consolidated</b>                         |                                   |            |                          |            |
| AUD/USD +10%                                | (827,410)                         | (176,213)  | (827,410)                | (176,213)  |
| AUD/USD -5%                                 | 479,027                           | 102,018    | 479,027                  | 102,018    |
| <b>Company</b>                              |                                   |            |                          |            |
| AUD/USD +10%                                | (1,655)                           | (725)      | (1,655)                  | (725)      |
| AUD/USD -5%                                 | 958                               | 420        | 958                      | 420        |



## 25. Financial risk management objectives and policies (cont)

Management believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

As noted, foreign currency transactions entered into during the financial year are managed within approved policy parameters using natural hedges. The director's do not consider that the net exposure to foreign currency transactions is material after considering the effect of natural hedges.

### (c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties which are continuously monitored.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit agencies.

### (d) Liquidity risk management

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.

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate risk management framework for the management of the Group's short, medium and long term funding and liquidity requirements. The Group manages liquidity by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and managing maturity profiles of financial assets. Significant uncertainties relating to the ability of the company and the consolidated entity to continue as going concerns and pay their debts as and when they fall due are set out in Note 1(a).

### Liquidity and interest tables

The following tables detail the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 25. Financial risk management objectives and policies (cont)

### (d) Liquidity risk management (cont)

|   | Weighted<br>average<br>effective<br>interest rate<br>% | Less than<br>1 month<br>\$ | 1-3 months<br>\$ | 3 months<br>to 1 year<br>\$ | 1-5 years<br>\$ |
|---|--|----------------------------|------------------|-----------------------------|-----------------|
| <b>Consolidated</b>                       |  |                            |                  |                             |                 |
| <b>2014</b>                               |  |                            |                  |                             |                 |
| Other non interest<br>bearing liabilities | -  | 2,722,745                  | -                | -                           | -               |
| <b>2013</b>                               |  |                            |                  |                             |                 |
| Other non interest<br>bearing liabilities | -  | 3,443,229                  | -                | -                           | -               |
| <b>Company</b>                            |  |                            |                  |                             |                 |
| <b>2014</b>                               |  |                            |                  |                             |                 |
| Other non interest<br>bearing liabilities | -  | 103,879                    | -                | -                           | -               |
| <b>2013</b>                               |  |                            |                  |                             |                 |
| Other non interest<br>bearing liabilities | -  | 95,435                     | -                | -                           | -               |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 25. Financial risk management objectives and policies (cont)

### (d) Liquidity risk management (cont)

The following tables detail the Company's and the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on these assets except where the Company/Group anticipates that the cash flow will occur in a different period.

| Consolidated                       | Weighted average effective interest rate % | Less than 1 month \$ | 1-3 months \$ | 3 months to 1 year \$ | 1-5 years \$ |
|------------------------------------|--|----------------------|---------------|-----------------------|--------------|
| <b>2014</b>                        |  |                      |               |                       |              |
| Non interest bearing               | -  | 4,804,958            | -             | -                     | -            |
| Variable interest rate instruments | -  | -                    | -             | -                     | -            |
| Receivables                        | -  | 6,412,992            | -             | -                     | -            |
| Fixed interest rate instruments    | 1.32                                       | 902,147              | -             | 97,493                | -            |
|                                    |  | 12,120,097           | -             | 97,493                | -            |
| <b>2013</b>                        |  |                      |               |                       |              |
| Non interest bearing               | -  | 1,317,127            | -             | -                     | -            |
| Variable interest rate instruments | -  | -                    | -             | -                     | -            |
| Receivables                        | -  | 1,849,340            | -             | -                     | -            |
| Fixed interest rate instruments    | 1.94                                       | 2,636,337            | 15,126        | 82,153                | -            |
|                                    |  | 5,802,804            | 15,126        | 82,153                | -            |

| Company                            | Weighted average effective interest rate % | Less than 1 month \$ | 1-3 months \$ | 3 months to 1 year \$ | 1-5 years \$ |
|------------------------------------|--|----------------------|---------------|-----------------------|--------------|
| <b>2014</b>                        |  |                      |               |                       |              |
| Non interest bearing               | -  | 18,200               | -             | -                     | -            |
| Variable interest rate instruments | -  | -                    | -             | -                     | -            |
| Fixed interest rate instruments    | 2.28                                       | 455,138              | -             | 15,229                | -            |
| <b>2013</b>                        |  |                      |               |                       |              |
| Non interest bearing               | -  | 7,979                | -             | -                     | -            |
| Variable interest rate instruments | -  | -                    | -             | -                     | -            |
| Fixed interest rate instruments    | 2.74                                       | 1,717,840            | 15,126        | -                     | -            |

### (e) Price risk

The Group's exposure to commodity price risk is minimal. The Group does not make investments in equity securities.

## 26. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance.

The identification of the Group's reportable segments has not changed from those disclosed in the previous 2013 Annual Report. The Group's reportable segments are Defence Systems and Space.

The consolidated entity operates in Australia, USA, Singapore and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems and the manufacture of electro-optic fire control systems.

### Product and Services within each Segment

#### Space

EOS's laser-based space surveillance systems have been demonstrated in customer trials and EOS is now well-placed to be a major contributor to the next generation of space tracking capability. Future business is dependent on large government contracts being awarded in the space sector.

In addition, EOS has substantial space resources in its own right, and may enter the market for space data provision in the future.

The space sector also manufactures and sells telescopes and dome enclosures for space projects.

#### Defence Systems

EOS develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers. These products either replace or reduce the role of a human operator for a wide range of existing and future weapon systems in the US, Australasia, Middle East and other markets.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 26. Segment Information (cont)

|   | Consolidated              |                           |
|---|---------------------------|---------------------------|
|   | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Segment Revenues</b>                 |                           |                           |
| Space                                   | 3,202,771                 | 5,592,858                 |
| Defence systems                         | 20,254,604                | 24,215,255                |
| Total of all segments                   | 23,457,375                | 29,808,113                |
| Unallocated interest received           | 19,058                    | 74,280                    |
| Total                                   | 23,476,433                | 29,882,393                |
| <b>Segment Results</b>                  |                           |                           |
| Space                                   | (236,580)                 | 1,463,696                 |
| Defence systems                         | (2,115,462)               | 720,444                   |
| Total of all segments                   | (2,352,042)               | 2,184,140                 |
| Unallocated holding company costs       | (665,504)                 | (621,394)                 |
| (Loss)/profit before income tax expense | (3,017,546)               | 1,562,746                 |
| Income tax expense                      | -                         | -                         |
| (Loss)/profit for the period            | (3,017,546)               | 1,562,746                 |

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period.

The consolidated entity has one customer who provided in excess of 10% of consolidated revenue. This customer is within the Defence segment with total revenue of \$14,329,095 (2013 - \$17,975,010).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 26. Segment Information (cont)

|                                       | Assets                    |                           | Liabilities               |                           |
|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                       | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| <b>Segment Assets and Liabilities</b> |                           |                           |                           |                           |
| Space                                 | 3,713,288                 | 1,240,622                 | 7,968,300                 | 1,829,722                 |
| Defence systems                       | 5,920,648                 | 7,944,158                 | 6,433,821                 | 7,066,171                 |
| Total all segments                    | 9,633,936                 | 9,184,780                 | 14,402,121                | 8,895,893                 |
| Unallocated cash                      | 5,803,264                 | 4,048,005                 | -                         | -                         |
| Consolidated                          | 15,437,200                | 13,232,785                | 14,402,121                | 8,895,893                 |

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

|                                  | Depreciation, impairment<br>and amortisation of<br>segment assets |                           | Acquisition of<br>segment assets |                           |
|----------------------------------|---|---------------------------|----------------------------------|---------------------------|
|                                  | 31 December<br>2014<br>\$   | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$        | 31 December<br>2013<br>\$ |
| <b>Other Segment Information</b> |   |                           |                                  |                           |
| Space                            | 9,732   | 12,008                    | 5,703                            | 26,881                    |
| Defence systems                  | 150,310   | 94,807                    | 71,436                           | 116,383                   |
| Total all segments               | 160,042   | 106,815                   | 77,139                           | 143,264                   |
| Unallocated management           | 135,616   | 104,992                   | -                                | -                         |
| Consolidated                     | 295,658   | 211,807                   | 77,139                           | 143,264                   |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 26. Segment Information (cont)

Information on Geographical Segments

### 31 December 2014

| Geographical Segments | Revenue from<br>External Customers<br>\$ | Segment Assets<br>\$ | Acquisition of<br>Segment Assets<br>\$ |
|-----------------------|--|----------------------|--|
| Australasia           | 23,285,976                               | 14,667,406           | 12,761                                 |
| North America         | 189,405                                  | 751,300              | 61,776                                 |
| Germany               | 1,052                                    | 18,494               | 2,602                                  |
| Total                 | 23,476,433                               | 15,437,200           | 77,139                                 |

### 31 December 2013

| Geographical Segments | Revenue from<br>External Customers<br>\$ | Segment Assets<br>\$ | Acquisition of<br>Segment Assets<br>\$ |
|-----------------------|--|----------------------|--|
| Australasia           | 28,513,050                               | 10,510,079           | 84,936                                 |
| North America         | 1,359,718                                | 2,707,757            | 56,791                                 |
| Germany               | 9,625                                    | 14,949               | 1,537                                  |
| Total                 | 29,882,393                               | 13,232,785           | 143,264                                |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 27. Construction Contracts

|  | Consolidated              |                           | Company                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ | 31 December<br>2014<br>\$ | 31 December<br>2013<br>\$ |
| Construction work in progress  | 10,301,587                | 11,157,390                | -                         | -                         |
| Less   |                           |                           |                           |                           |
| Provision for losses   | (311,193)                 | (286,084)                 | -                         | -                         |
| Progress billings  | (15,131,908)              | (10,156,800)              | -                         | -                         |
|  | (5,141,514)               | 714,506                   | -                         | -                         |
| Recognised and included in the financial<br>statements as amounts due: |                           |                           |                           |                           |
| <b>From customers under construction contracts:</b>                    |                           |                           |                           |                           |
| Current (note 6)   | 996,217                   | 1,153,498                 | -                         | -                         |
| <b>To customers under construction contracts:</b>                      |                           |                           |                           |                           |
| Current (note 11)  | (6,137,731)               | (438,992)                 | -                         | -                         |
|  | (5,141,514)               | 714,506                   | -                         | -                         |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT)

## 28. Additional Company Information

Electro Optic Systems Holdings Limited is a listed public company in Australia, incorporated in Australia. The company and its subsidiaries operate in Australia, North America, Singapore and Germany.

### Registered Office

Suite 2, Level 12  
75 Elizabeth Street  
Sydney NSW 2000  
Australia

Tel: 02 9233 3915  
Fax: 02 9232 3411

### USA Operations

2500 N. Tucson Boulevard  
Suite 100  
Tucson, Arizona 85716  
USA

Tel: +1 (520) 624 6399  
Fax: +1 (520) 624 1906

### Singapore Operations

4 Shenton Way #28-01  
SGX Centre II  
Singapore 068807

Tel: +65 6224 0100  
Fax: +65 6227 6002

### Principal Place of Business

EOS House  
Mt Stromlo Observatory  
Cotter Road  
Weston Creek ACT 2611  
Australia

Tel: 02 6222 7900  
Fax: 02 6299 7687

### German Operations

Ulrichsberger Str. 17 3 OG  
94469 Deggendorf  
Germany

Tel: +49 991 2910083  
Fax: +49 991 2910399

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

## HOME EXCHANGE

The Company's ordinary shares are quoted on the Australian Stock Exchange Limited under the trading symbol "EOS". The Home Exchange is Sydney.

## SUBSTANTIAL SHAREHOLDERS

At 5 March 2015 the following substantial shareholders were registered:

|  | Ordinary Shares | Percentage of total Ordinary shares |
|--|-----------------|-------------------------------------|
| Fred Bart Group                                  | 5,309,075       | 9.34%                               |
| Technology Investments Pty Limited Group         | 3,954,185       | 6.96%                               |
| Northrop Grumman Space and Mission Systems Corp. | 5,000,000       | 8.80%                               |
|  | 14,263,260      | 25.10%                              |

## VOTING RIGHTS

At 5 March 2015 there were 1,194 holders of fully paid ordinary shares.

Rule 74 of the Company's Constitution stipulates the voting rights of members as follows:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares and to this Constitution:

- (a) on a show of hands every person present in the capacity of a Member or a proxy, attorney or representative (or in more than one of these capacities) has one vote; and
- (b) On a poll every person present who is a Member or proxy, attorney or Representative has member present has:
  - (i) For each fully paid share that the person holds or represents - one vote; and
  - (ii) For each share other than a fully paid share that the person holds or represents - that proportion of one vote that the amount paid (not credited) on the shares bears to the total amount paid and payable on the share (excluding amounts credited)."

## OTHER INFORMATION

In accordance with Listing Rule 4.10.19, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

The Company has a sponsored Level 1 American Depositary Receipt (ADR) program on the Over-The-Counter (OTC) market in the USA with the ADR ticker symbol of EOPSY. The ration of ADR's to Ordinary shares is 1:5 and the CUSIP Number is 28520B1070. The local custodian is National Australia Bank Limited and the US Depositary Bank is BNY Mellon.

# ASX ADDITIONAL INFORMATION (CONT)

## DISTRIBUTION OF SHAREHOLDINGS

At 5 March 2015 the distribution of share and option holdings were:

| Range            | Ordinary Shareholders | Number of Shares |
|------------------|-----------------------|------------------|
| 1-1,000          | 223                   | 142,429          |
| 1,001 - 5,000    | 408                   | 1,217,082        |
| 5,001 - 10,000   | 222                   | 1,910,929        |
| 10,001 - 100,000 | 267                   | 8,913,385        |
| 100,001 and over | 74                    | 44,662,101       |
|                  | 1,194                 | 56,845,926       |

There were 127 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

# TWENTY LARGEST ORDINARY SHAREHOLDERS - QUOTED

## TWENTY LARGEST ORDINARY SHAREHOLDERS

At 5 March 2015 the 20 largest ordinary shareholders held 55.82% of the total issued fully paid quoted ordinary shares of 56,845,926.

| Shareholder                                    | Fully Paid Ordinary Shares | Percentage of Total |
|--|----------------------------|---------------------|
| 1. Citicorp Nominees Pty Limited               | 6,616,007                  | 11.64%              |
| 2. N & J Properties Pty Limited                | 4,090,000                  | 7.19%               |
| 3. Technology Transformations Pty Limited      | 2,754,185                  | 4.84%               |
| 4. Emichrome Pty Limited                       | 2,516,488                  | 4.43%               |
| 5. Mr Justin Casey <2 A/C>                     | 2,105,000                  | 3.70%               |
| 6. Capitol Enterprises Limited                 | 1,550,000                  | 2.73%               |
| 7. A & D Wire Limited                          | 1,457,276                  | 2.56%               |
| 8. Link Traders (Aust) Pty Limited             | 1,239,900                  | 2.18%               |
| 9. Technology Investments Pty Limited          | 1,200,000                  | 2.11%               |
| 10. Landed Investments NZ Limited              | 1,010,000                  | 1.78%               |
| 11. Emichrome Pty Limited <Super Fund A/C>     | 997,450                    | 1.75%               |
| 12. HSBC Custody Nominees (Australia)          | 902,605                    | 1.59%               |
| 13. DBS Vickers Securities (Singapore) Pte Ltd | 877,000                    | 1.54%               |
| 14. Mr Leo Casey <Europe> A/C                  | 868,000                    | 1.53%               |
| 15. Kam Superannuation Fund Pty Limited        | 693,000                    | 1.22%               |
| 16. Mr Kevin Tay Hak Leong                     | 671,228                    | 1.18%               |
| 17. Tony Peter Vucic + Diane Vucic             | 575,000                    | 1.01%               |
| 18. Crea8ive Nominees Pty Limited              | 560,000                    | 0.99%               |
| 19. Bond Street Custodians Limited             | 550,000                    | 0.97%               |
| 20. Landed Investments Limited                 | 500,000                    | 0.88%               |
|  | <b>31,733,139</b>          | <b>55.82%</b>       |



# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Electro Optic Systems Holdings Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Electro Optic Systems Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Directors are committed to protecting stakeholders' interests and keeping investors fully informed about the performance of the Company, while meeting stakeholders' expectations of sound corporate governance practices. To ensure the best representation of Shareholder interests, the Board will regularly review its corporate governance practices.

The Corporate Governance Statement follows the Australian Stock Exchange Corporate Governance Council's (the "Council's") amendments to the - edition of the Corporate Governance Principles and Recommendations released 27 March 2014 in relation to diversity, remuneration, sustainability, trading policies and briefings.

In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Electro Optic Systems Holdings Limited's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the Board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Remunerate fairly and responsibly

Electro Optic Systems Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2014 and embrace the Council's best practice recommendations which are being put in place as appropriate.

The Audit Committee was formed on 28 April 2005 and consists of three non-executive directors. The members of the Audit Committee are Lt Gen Peter Leahy AC (Chairman), Mr Ian Dennis and Mr Kevin Scully. The majority of the Audit Committee are independent directors and the Chairman is an independent person.

The Remuneration Committee was formed on 23 March 2007. The members of the Remuneration Committee are Lt Gen Peter Leahy AC (Chairman), Mr Ian Dennis and Mr Kevin Scully. The majority of the Remuneration Committee are independent directors and the Chairman is an independent person.

The Company has documented risk management policies and procedures in accordance with its ISO 9001 certification for its operating activities which are regularly reviewed. During the current year the Directors have adopted a formal risk assessment plan in order to comply with Principle 7. The Directors and management have considered whether the Company has any material exposure to economic, environmental and social sustainability risks and determined that no material exposure exists.

Additional information regarding the Company's corporate governance policies, its Directors, Insider Trading Policy, Equality and Diversity in the Workplace Policy and other relevant information can be found on the Company's website: [www.eos-aus.com](http://www.eos-aus.com)

## Structure of the Board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report is included in the Directors' Report on page 4. Directors of Electro Optic Systems Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5 percent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 percent of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically

important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Electro Optic Systems Holdings Limited are considered to be independent:

| Name                  | Position                                     |
|-----------------------|--|
| Mr. Ian Dennis        | Non-Executive Director and Company Secretary |
| Lt Gen Peter Leahy AC | Non-Executive Director                       |
| Mr Kevin Scully       | Non-Executive Director                       |

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

| Name                  | Position               | Term in Office |
|-----------------------|------------------------|----------------|
| Mr Fred Bart          | Non-Executive Chairman | 13 years       |
| Dr Ben Greene         | Executive Director     | 11 years       |
| Mr. Ian Dennis        | Non-Executive Director | 13 years       |
| Mr Mark Ureda         | Non-Executive Director | 9 years        |
| Lt Gen Peter Leahy AC | Non-Executive Director | 4 years        |
| Mr Kevin Scully       | Non-Executive Director | 2 years        |

For additional details regarding board appointments, please refer to the Company's website.

## Nomination Committee

The Board does not currently have a formal Nomination Committee. However, the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of Director and, where appropriate, seeking the services of an independent consultant who is not a director of the Company to provide assistance in the recruitment of potential Directors.

## Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, an assessment of the performance of each Board member and key executive against specific and measurable qualitative and quantitative performance criteria was undertaken. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of Electro Optic Systems Holdings Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

## Remuneration

One of the Company's key objectives is to provide maximum stakeholder benefits from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. A Remuneration Committee was formed on 23 March 2007. The nature and amount of Executive Directors' and Officers' emoluments are linked to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow executives to share the rewards of the success of Electro Optic Systems Holdings Limited.

For details regarding the amount of remuneration and all monetary and non-monetary components for Directors and executives, refer to Note 20 of the Notes to the Financial Statements. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Electro Optic Systems Holdings Limited and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Chief Executive Officer and the executive team.

## Equality and Diversity Policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company has issued the Equality and Diversity Policy which outlines its equality and diversity objectives in relation to gender, sexual preference, transgender status, marital status, disability, religion, cultural and racial background, political preference, trade unionism, pregnancy and age. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress made in achieving them.

EOS Group has a publicly accessible diversity policy which complies with the recommendations of the Australian Stock Exchange Corporate Governance Principles. In relation to the achievement of the diversity policy objectives, as at 31 December 2014, EOS Group employed 87 (2013 - 94 staff). 20% (17) (2013 - 19) of these staff were female and 2% (2013 - 3%) (2)(2013 - 3) of these women were employed in management roles with management defined as staff having direct report employees. There were no female directors. In 2014 there were no workplace harassment complaints. In 2013 one workplace harassment complaint was investigated and concluded through mediation. 20% (2013 - 17%) (18)(2013 - 16%) of employees accessed flexible workplace arrangements including early commencement times and alternative work days. 3 (2013 - 5) employees accessed company education assistance for tertiary study.

The Equality and Diversity Policy of the Company is available on the Company's web site at [www.eos-aus.com](http://www.eos-aus.com)

## Safeguard integrity in financial reporting

The chief executive officer and the chief financial officer are required to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

## Policy on Trading in Securities

Directors and employees of EOSH should not buy or sell securities in EOSH, when EOSH is in possession of price sensitive information that is not generally available to the market.

The Securities Trading Policy of the Company is available on the Company's website at [www.eos-aus.com](http://www.eos-aus.com) and has been lodged with ASX Limited.





The logo for TEOS features a stylized starburst icon on the left, composed of several thin white lines radiating from a central point. To the right of this icon, the letters "TEOS" are written in a bold, white, sans-serif font with a slight italicization.

TEOS



[www.eos-aus.com](http://www.eos-aus.com)