



**WE SEE
FURTHER**

Annual Report 2021

CONTENTS

| | |
|---|------------|
| Chairman's Report | 1 |
| CEO's Report | 2 |
| EOS in 2021 | 6 |
| EOS Directors | 8 |
| Executive Team | 10 |
| Company Overview | 12 |
| Defence | 14 |
| Employee Spotlight – Namisha Chabbra | 17 |
| Space | 18 |
| Employee Spotlight – Jacob Debono | 21 |
| EOS People | 22 |
| Employee Spotlight – Paul Costigan | 25 |
| Our Commitment to STEM | 28 |
| Supporting Our Supply Chain Partners | 30 |
| Corporate Social Responsibility | 32 |
| Review of Operations | 33 |
| Directors' Report | 40 |
| Auditor's Report | 62 |
| Directors' Declaration | 69 |
| Financial Statements and Notes | 70 |
| ASX Additional Information | 143 |
| Corporate Directory | 145 |

CHAIRMAN'S REPORT

Both 2020 and 2021 were years that were defined by investing in the future while dealing with COVID-19.

The Directors acknowledge that a net loss after tax of \$13.8 million for 2021 is a disappointing outcome.

Both Defence Systems and EM Solutions delivered record results. These profits were reinvested into the development of future programs such as autonomous systems, counter-drone technology and SpaceLink.

Our investment into the future of SpaceLink was a key factor behind the net loss after tax reported in 2021. During the year, \$37 million was invested in SpaceLink, of which \$20.6 million was expensed through profit and loss.

SpaceLink represents an unrivalled opportunity to establish an optical communications satellite business, and over the last two years the Company has invested a total of \$49 million in establishing this business and employing a highly skilled team to unlock the value of the spectrum licence granted to one of our subsidiaries. Given the potential value of this business, the overarching objective of the Board is to retain as much of the value as possible for EOS shareholders.

Your Board and management are working on two major actions to improve the share price: first, finalising our efforts to finance SpaceLink's initial satellite constellation and, second, reversing the decline in the order book from \$429 million at December 2020 to \$342 million at December 2021. While the order book still represents approximately 1.5 years of production, a priority of the Company is to bolster it through contract wins in the current financial year. To our knowledge, no major projects that the Company tendered for during 2020 or 2021 have been cancelled or awarded to another party.

I wish to recognise and, on behalf of the Directors, to thank Mr Fred Bart, who stepped down as Chairman on 27 July 2021 after 19 years on the Board, for his contribution. The value of his stewardship over this period, starting from the Company's initial public offer, cannot be overstated. Mr Bart helped to oversee the evolution of the Company to one that now has operations in six countries and supplies 12 countries' militaries with highly sophisticated equipment. Another integral part of the Company's development has been the contribution of Mr Ian Dennis, who also retired from the Board after more than 20 years of service. In addition, Mr Dennis held the position of Company Secretary over this period. His counsel was invaluable, and we wish him well in his retirement.

The increasing complexity of EOS' business is altering the Board's desired skill matrix. Recent Board vacancies have enabled the process of Board renewal to begin. To that end, I would like to welcome Ms Deena Shiff, who joined the

Board just prior to the year-end. Ms Shiff's business acumen and experience in telecommunications will assist in further strengthening corporate governance and accountability within the business.

Importantly, the Directors would like to thank Dr Ben Greene, Group CEO, the executive team and the entire EOS workforce for all their efforts throughout the year. The Group achieved a number of milestones throughout this period while maintaining a COVID-19-safe workplace and delivering record production levels across both the Defence and Space businesses.

This year's Annual Report focuses on several of the many highly talented employees within the Group, in areas from research to production. Our ability to compete effectively on the global stage is a reflection of the calibre and capability of our workforce, and of their commitment and ingenuity. We rely on their ongoing commitment.

Notwithstanding rising geopolitical tensions, we look forward to our shareholders, employees and other stakeholders joining the Directors for an expected period of growth for EOS over the year ahead.

Lt Gen (Ret'd) Peter Leahy AC
Chairman
Electro Optic Systems
Holdings Limited



CEO'S REPORT

For the year ended 31 December 2021

I am pleased to write to our shareholders from a position of greater clarity than at the corresponding moment of 2020, when the global business environment in which EOS operates was largely defined by COVID-19-related uncertainty.

We welcome the return to a more normal operating environment following an unprecedented two-year period in the history of the Company, the international business community and the world in general. The easing of international travel and other pandemic-related restrictions – and the concurrent normalisation of several of our major overseas contracts – is a meaningful development for the EOS group of companies, whose operations benefit from the mobility of people and goods around the world.

As I review our present position and the horizon ahead, I am optimistic about the future of our organisation – as well as proud at how our people have risen to meet the many challenges that the COVID-19 pandemic has presented.

Over the past two years, the Company has invested heavily in its future growth. This decision was a major factor behind the Company's FY21 reported loss. Analysis of the Company's financial statements, however, demonstrates that our Defence business remains highly profitable.

During 2021, the Company took certain major strategic steps, including the consolidation of various operational areas of the business and the streamlining of internal business practices and oversight, in preparation for expected accelerated growth in the near term. These changes are summarised below and detailed throughout this Report.

Consolidating the Business

The Company carried out a significant organisational consolidation via the merging of the former Space Systems and Communications Systems divisions into a single division, EOS Space Systems. We expect the principal benefits of this carefully considered reorganisation to be twofold:

- First, it will streamline a range of business processes and lines of communication across the Company, increasing efficiency.
- Second, it will help domestic and global markets – including potential customers and investors – to understand EOS' core business activities more easily.

The R&D and other contributions of the expanded EOS Space Systems will be a critical pillar of the Company's future operations and health.

Increasing Productivity and Output

In 2021, in spite of COVID-related constraints, we:

- directed substantial resources into our domestic and international supply chains to better protect them from future environment-related shocks
- continued to add to our international manufacturing and sustainment infrastructure, enhancing our ability to meet the needs of our international partners in the US, the Middle East, Asia and Europe
- significantly improved our Defence manufacturing and production capabilities
- developed and brought to market a variety of new products and services that are considered industry leading.

That we achieved the above during the height of a global pandemic is a testament to the dedication and resilience of the entire EOS global workforce.



Growth Opportunities

In commercial, civil and military organisations around the world, there is increasing demand for several emerging products and services that rely on highly specialised technologies that EOS has been developing over many years. That is, the Company's core capabilities make us ideally positioned to capitalise on these nascent technological and geopolitical trends in both the defence and space sectors.

A major impact of the COVID-19 pandemic has been delays in the awarding of new contracts, both domestically and internationally. This barrier is falling, and as we look ahead at the spectrum of opportunities before us, our focus, more than ever, is on high-value business areas and product lines that can yield the greatest long-term value for our shareholders.

Examples include our best-in-class remote weapon systems (RWS) and counter UAS (CUAS) technologies, including integration onto uninhabited ground vehicles; our pioneering capabilities in the promising field of directed energy; and our formidable Space Domain Awareness (SDA) infrastructure. All of these are high growth segments in a defence market which is itself growing very quickly.

In the terrestrial and space communications domains, both SpaceLink and EM Solutions are poised to achieve much in 2022 following a year of outstanding progress for both entities in 2021. Further details are given later, in the "Space" section of this Report (p. 18).

2021 Highlights

For both EOS Defence Systems and EOS Space Systems, 2021 included a number of notable highlights.

Defence Systems

The Commonwealth's ongoing \$270 billion defence capability upgrade has been an energising development for the domestic defence sector, and we have confidence in our suite of existing and developing defence product lines and our ability to meet the evolving materiel needs of the Australian Defence Force and our international allied partners.

Noteworthy 2021 Defence activities included:

- the continuing delivery of advanced RWS systems to the Australian Army to fulfil a major Commonwealth contract
- the release of Titanis, our market-leading CUAS (i.e. counter-drone) system
- our successful leadership of the C4 EDGE program, a large-scale communications capability demonstration involving dozens of organisations across the Australian Defence sector
- the commissioning of a live firing range in western NSW at which EOS can test and demonstrate new products
- growth of our international allied customer base.

Additional details of EOS Defence Systems' 2021 activities can be found in the "Defence" section of this Report (p. 14).

Space Systems

It is a similarly exciting moment in the domestic space community, where there is a sense of gathering momentum around our long-held organisational ambition of creating an enduring sovereign space industry.

The following were among Space Systems' key 2021 activities:

- the unveiling of our new Guide Star Laser, a globally noted innovation that will meaningfully bolster our SDA capabilities
- successful participation in the prestigious, US-led Sprint Advanced Concept Training (SACT) exercises
- the continuing development of EM Solutions' two-metre class "King Cobra" maritime satellite terminal
- provision of mission support to the historic M2 space mission
- the continuing evolution of SpaceLink's intellectual property and network of potential customers and suppliers.

Fuller descriptions of these and other developments are given in the "Space" section of this Report (p. 18).

This Report

This Report offers a detailed picture of EOS' current operations and future outlook.

Our 2021 financial results are described in granular detail in the "Review of Operations" and "Financial Statements and Notes" sections on pp. 33 and 70, respectively.

The Report also outlines a range of other activities of the Company, including:

- our considerable contributions to the health of Australia's STEM ecosystem, of which EOS is an acknowledged leader (see "Our Commitment to STEM" on p. 28)
- our ongoing efforts to be an exemplar of good corporate citizenship within the Australian defence and space sectors (see "Corporate Social Responsibility" on p. 32)
- progress in relation to our goal of increasing the diversity of our global workforce and the participation of women at all levels of the Company, including Board level (see "EOS People" on p. 22).

Through a series of short profiles, this Report also brings into focus the contributions of several talented EOS employees working in a range of capacities across the Company. We acknowledge that communicating our story to the market has not always ranked among our chief organisational strengths. These profiles reflect our commitment to improve in this area, including by telling the often remarkable stories of EOS' global workforce, who are the fundamental engine that drives the Company forward.

The Future

The domestic and global environments in which EOS operates have changed markedly since 1983, and our organisational and technical capabilities have advanced dramatically since those early days.

In certain fundamental respects, however, the Company has remained entirely unchanged.

We are still passionate about strengthening Australia's sovereign capabilities and about the great economic and other whole-of-nation benefits that onshore technological innovation can bring wherever in the world we locate.

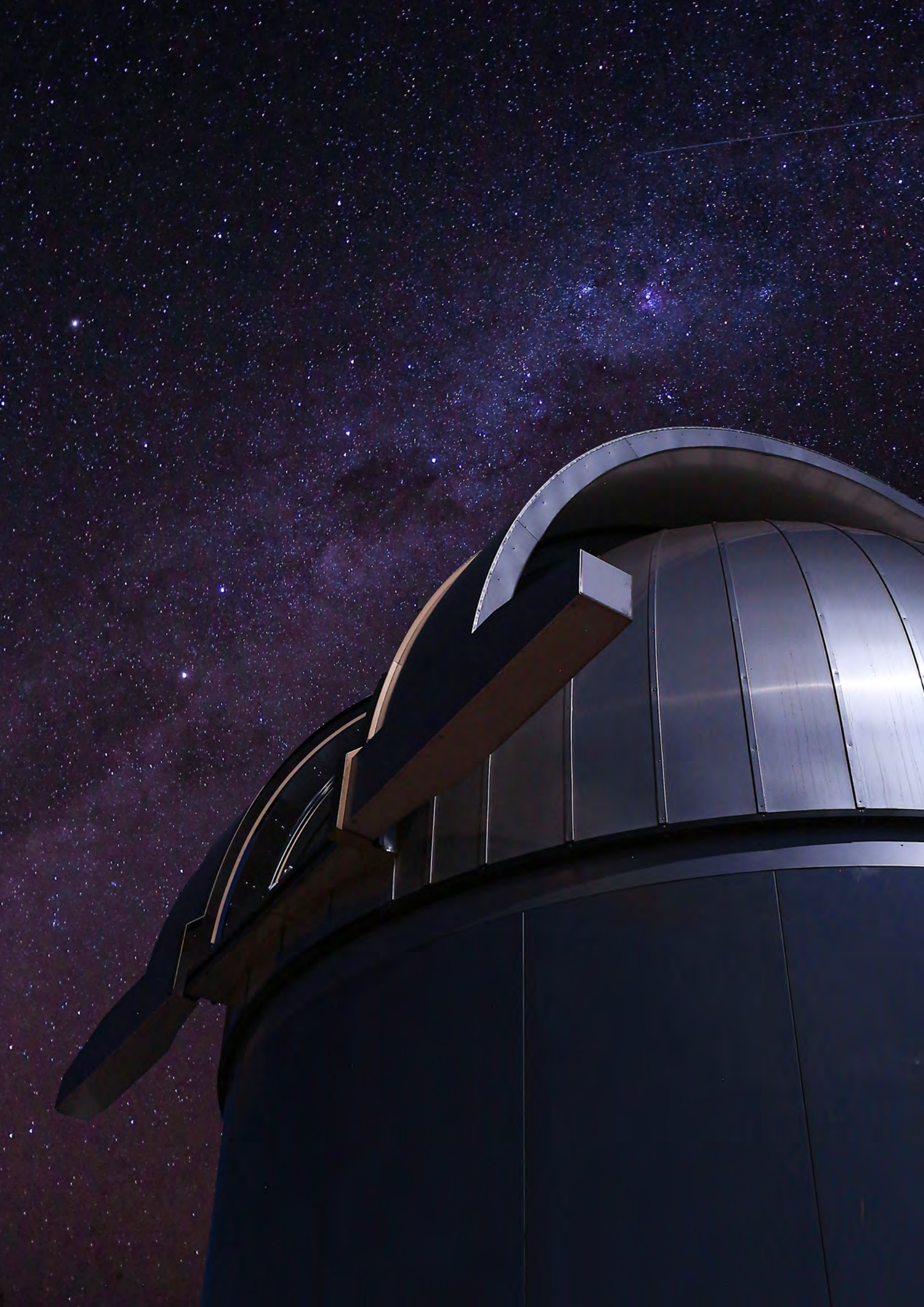
We are still dedicated to offering Australia's best and brightest STEM practitioners challenging, rewarding careers that will keep them working locally, to the benefit of the nation in general.

And we are still inspired by the possibilities our technologies offer for the improved security and economic well-being of the societies we serve. Our drive to benefit shareholders and other EOS stakeholders will continue to deliver a wide range of social benefits.

EOS' story has been developing for almost 40 years, and I am excited about the coming phases of that story – the chapters that are still to be written. I hope that, after reading this Report, you will share our optimism.



Ben Greene
Chief Executive Officer
31 March 2022



EOS IN 2021



OFFICES IN

5

COUNTRIES

ACTIVITIES SPANNING

18

COUNTRIES

EMPLOYING

554

PEOPLE

EOS CUSTOMERS



EOS Defence Systems Pte Limited
Singapore

EM Solutions Pty Limited
Tennyson, Australia

Electro Optic Systems Holdings Limited
Electro Optic Systems Pty Limited
EOS Defence Systems Pty Limited
EOS Space Systems Pty Limited
Symonston, Hume, Queanbeyan and
Melbourne, Australia

EOS DIRECTORS



Lt Gen (Ret'd) Peter Leahy AC

Chairman (27/07/21–current)

Appointed to the Board on 4 May 2009 (length of service – 12 years).

Peter Leahy AC (age 69) retired from the Australian Army in July 2008 as a Lieutenant General in the position of Chief of Army. Among his qualifications, he holds a BA (Military Studies) and a Master of Military Arts and Science. He is a Professor and the Foundation Director of the National Security Institute at the University of Canberra, a director of Codan Limited and a member of the advisory board to Warpforge Limited. In other activities, he is Chairman of the charity Soldier On and the Red Shield Appeal Committee in the ACT. He was Chairman of the Company's Audit and Risk Committee and a member of the Nominations and Remuneration Committee until his appointment as Chairman.



Dr Ben Greene

Chief Executive Officer, Electro Optic Systems

Appointed to the Board of Electro Optic Systems on 11 April 2002 (length of service – 19 years).

Ben Greene, BE (Hons), Phd in Applied Physics (age 71), is the Chief Executive Officer of Electro Optic Systems. Dr Greene is the founder of Electro Optic Systems Pty Limited. He is published in the subject areas of weapon systems, laser tracking, space geodesy, quantum physics, satellite design, laser remote sensing and the metrology of time. Dr Greene is a member of the Australian Research Council Centre for Excellence for Engineered Quantum Systems, a past member of Australia's Prime Minister's Science, Engineering and Innovation Council, and has served as Deputy Chair of the Western Pacific Laser Tracking Network Council and CEO of the Cooperative Research Centre for Space Environment Management.



The Hon Kate Lundy (Hon LittD, GAICD)

Non-executive director

Appointed to the Board on 23 March 2018 (length of service – four years).

Kate Lundy, HonLittD, GAICD (age 54), served as a Senator representing the Australian Capital Territory from 1996 to 2015. During this time, she held various frontbench positions in both Government and Opposition, including Minister for Sport, Multicultural Affairs and Assisting on Industry and Innovation and the Digital Economy.

Kate remains passionate about technology and innovation, with a focus on the positive impact of technology on society, culture and the economy. In 2017, ANU awarded her an honorary Doctor of Letters for her "exceptional contributions to advocacy and policy for information communications and technology, for the ACT and nationally". In 2017, Kate was inducted into the Pearcey Foundation Hall of Fame for "distinguished achievement and contribution to the development and growth of the Information and Communication Technology Industry".

Kate is a non-executive director of the Australian Grand Prix Corporation, the National Roads and Motoring Association and the Cyber Security Research Centre; the Chair of the National Youth Science Forum and Deputy Chair to the Board of the Canberra Institute of Technology; a member of the ACT Defence Industry Advisory Board; and ACT Defence Industry Ambassador. She is a member of the Audit and Risk Committee and the Nominations and Remuneration Committee.



Air Marshal (Ret'd) Geoffrey Brown AO

Non-executive director

Appointed to the Board on 21 April 2016 (length of service – five years).

Geoffrey Brown AO (age 63) retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications, he holds a BEng (Mech) and a Master of Arts (Strategic Studies) and is a Fellow of the Institute of Engineering Australia and of the Royal Aeronautical Society. He is a Strategic Advisor to Lockheed Martin (Australia) Pty Limited, Chairman of the Sir Richard Williams Foundation and Chairman of the Advisory Board of CAE Asia Pacific. He is Chairman of the Nominations and Remuneration Committee and a member of the Audit and Risk Committee.



David Black

Non-executive director

Appointed to the Board on 1 January 2021 (length of service – one year).

David Black, BA (Hons), FCA, MBA, GAICD (age 51), is the Chair of the Audit and Risk Committee and a member of the Nominations and Remuneration Committee. Before retiring from the Deloitte Touche Tohmatsu Australia partnership in 2016, David spent 25 years with Deloitte in the UK and Australia, providing services to a range of clients, including in the defence, manufacturing and government sectors. David's experience includes working with start-up businesses, multinational corporations and the boards of ASX-listed entities on complex accounting, internal and external auditing, risk management, corporate governance and due diligence engagements. David previously served as the audit partner of Deloitte Touche Tohmatsu for the periods ending from June 2005 to December 2009 and June 2012 to June 2016.

David is a Fellow of Chartered Accountants Australia and New Zealand and of the Institute of Chartered Accountants in England and Wales, has a BA (Hons) in Economics and an MBA, and is a graduate of the Australian Institute of Company Directors. Since his retirement from Deloitte, he has established a growing family business, and he serves as independent member on two government audit committees, chairing one of these.



Deena Shiff

Non-executive director

Appointed 7 December 2021 (length of service – one month).

Deena Shiff, BSc Econ (Hons), LLB, Fellow AICD (age 67), has had a senior executive, legal and government career. She was the first woman to be appointed Group Managing Director at Telstra Corporation, is a former Partner at Mallesons Stephen Jacques and has served in regulatory in-house counsel roles. Deena is currently Chair of the Supervisory Board of Marley Spoon AG and a non-executive director of Appen Limited and Pro Medicus Limited. She is also Chair of the Broadband Advisory Council and is on the Board of Opera Australia. Deena was previously the Chairman of BAI Communications and a director of Infrastructure Australia and Export Finance Australia.

EXECUTIVE TEAM



Grant Sanderson
Chief Executive Officer, EOS Defence Systems
(Global)

Grant joined EOS in January 2018, although he worked on major EOS development activities as a consultant during 2016 and 2017. He is a military veteran of 25 years who prior to joining EOS was the Vice President, Strategy and Business Development in Australia for the Israeli defence technology company Elbit Systems. Prior to joining Elbit, Mr Sanderson was the General Manager, Strategy for the Thales Australia Land Division and was instrumental in the major product and manufacturing reforms that brought the Hawkei, Steyr F90 rifle and ammunition products to market, including the international sales drive for the Bushmaster PMV.



Glen Tindall
Chief Executive Officer, EOS Space Systems
(Global)

Glen joined EOS in 2020 as CEO of Communications Systems and was appointed CEO of Space Systems in 2021. Prior to joining EOS he spent 17 years with SES, the world's largest commercial satellite operator, delivering satellite communications solutions to business and government customers throughout the Indo-Pacific region. He holds an Honours degree in Electrical Engineering from the University of Tasmania and an MBA from the Deakin Business School and is a graduate of the Australian Institute of Company Directors.



Michael Lock
Chief Financial Officer



Morgan Bryant
Company Secretary and
Chief Legal Officer



Pete Short
Group Chief Operating Officer



Dr Craig Smith
Chief Technology Officer



Matt Jones
CEO for EOS Defence Systems
Australia



Phil Coker
CEO for EOS Defense Systems
USA, Inc



AbdulRahman AlBlooshi
CEO for EOS Advanced
Technologies, UAE



Henry Heng
CEO, EOS Defence Systems,
Asia-Pac

COMPANY OVERVIEW

Electro Optic Systems (EOS) is an Australian technology company that creates leading-edge products and services for a range of applications in the defence, space and communications sectors.

We develop and produce world-leading technology to enhance the security and prosperity of Australia and its allies.

Our core capabilities include bespoke optical and laser assemblies, thermal imagers, day cameras, gimbals, laser rangefinders and other high-value hardware. Our expertise in these areas – which we have been honing for almost 40 years – enables us to bring new and innovative technologies to market.

EOS operates in two divisions: Defence Systems and Space Systems.

Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (intelligence, surveillance and reconnaissance) and C4 (command, control, communication and computers) systems for land warfare. Its key products are next-generation remote weapon systems, vehicle turrets, and counter-UAS (uninhabited aerial systems) systems.

Space Systems includes all EOS space and communications businesses, and operates as three entities: SpaceLink, EM Solutions and Space Technologies. SpaceLink is launching a constellation of Medium Earth Orbit satellites to create the communications superhighway for the space economy. EM Solutions provides global satellite communications services and systems. Space Technologies specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space, and forms the nucleus of research and development across the EOS group.

Our customers operate in the civil, commercial and military spheres and include the Commonwealth of Australia, the Australian Army and the Royal Australian Navy, Geoscience Australia, several US government agencies, and various international allied armies, navies and civil organisations.

We employ a highly skilled workforce of specialist engineers, scientists and other expert personnel, including a large contingent of defence force veterans. Our global workforce comprises almost 550 employees, and we have international offices in the US, Germany, United Arab Emirates and Singapore.

Australian Technology, Global Reach

EOS has been headquartered in Canberra since the Company's 1983 founding, and the bulk of our products are manufactured by a local workforce at our Hume, Queanbeyan and Brisbane production facilities.

In 2020, the company commenced full-rate production at its state of the art facility in Huntsville, Alabama, to service contracts for the US and other markets. EOS also has sustainment infrastructure in Singapore and the UAE to meet the ongoing needs of our international customers and allies.

EOS has long had a healthy export business – indeed, the majority of our customers have historically been overseas-based – but the Company also has a longstanding commitment to enhancing Australia's sovereign capabilities and is passionate about the whole-of-nation benefits that onshore technological innovation can bring.

As such, we work closely with Australian owned, Australia-based suppliers, sourcing individual components from overseas if they are unavailable or are not made to the required military standard locally. EOS has actively worked to enhance the robustness of its supply chain to minimise the potential impact of exogenous events.

EOS' business activities are helping to:

- improve Australia's sovereign and industrial capabilities and, by extension, our national security
- bring Australia's defence and space capabilities closer into line with those of our key allies
- meet the evolving materiel and communications requirements of the Australian Defence Force
- keep homegrown STEM talent working onshore
- create domestic manufacturing jobs
- generate employment and business opportunities for our nation-wide network of supply chain partners, including in rural and regional areas
- burnish Australia's growing global reputation as a technological innovator.



OUR VISION

To be Australia's most-valued space and defence company



OUR MISSION

To develop and produce world-leading technology to enhance the security and prosperity of Australia and its allies

WHAT DO WE ASPIRE TO DO BEST?

Develop and produce systems that can detect, identify, stabilise, control and communicate to improve informed decision-making

WHAT IS OUR PASSION?

Design and harness RF and electro-optical engineering to solve unique customer challenges

WHAT DRIVES OUR RESOURCING?

We depend on trusted and enduring relationships with agencies that seek to enhance national security and prosperity

An Industry Leader

In our capacity as a leader within Australia's defence and space communities, we undertake a range of activities to foster growth across those sectors and ensure the ongoing health of Australia's science, technology, engineering and mathematics (STEM) ecosystem. These activities – several of which are detailed throughout this Report – include:

- a variety of formal scholarships, internship and PhD supervision programs
- direct funding of promising STEM research
- participation in industry demonstrations, forums and joint exercises
- provision of ad hoc and informal assistance to major university research projects
- provision of mission support to space expeditions.

Our Vision

The environment in which EOS operates has changed markedly since 1983, but the Company's vision of being Australia's most valued space and defence company has remained constant over time.

EOS believes strongly in the need to bolster Australia's sovereign capabilities and in the nation-wide benefits that technological innovation, as well as the creation of enduring sovereign defence and space industries, can bring. The Company is well positioned to be at the vanguard of this exciting future.

DEFENCE



The C4 EDGE sovereign Battlegroup and Below Battlefield Command System prototype was demonstrated in a combat team environment, integrating mounted/dismounted and uninhabited platforms in a single network

2021 saw EOS Defence Systems achieve a great deal amid challenging global conditions.

We increased our profitability; improved the overall efficiency and capacity of our manufacturing for all defence product lines; added to our domestic and international customer base; and unveiled a diverse suite of new and next-generation products that are considered industry leading.

A selection of EOS Defence Systems' key 2021 activities are summarised below.



Titanis: a fully integrated, scalable CUAS suite combining soft, hard and directed energy defeat capabilities

Commonwealth RWS Contract

EOS Defence Systems is an acknowledged global pioneer in remote weapon systems (RWS), given the advantages in range, accuracy and lethality that our RWS systems offer.

During 2021, EOS continued to deliver on a major contract with the Commonwealth of Australia by completing production of 251 RWS for integration onto Australian Army Bushmaster and Hawkei protected mobility vehicles.

This major government investment – a part of the ongoing \$270 billion Australian Defence Force capability upgrade – will benefit not only EOS but also the 146 Australian suppliers and more than 1100 domestic workers within our RWS manufacturing supply chain.

CUAS

The need for adequate defences against attacks by uninhabited aerial systems (UAS) has become increasingly urgent in recent years, as advances in UAS technology continue to heighten the threat posed by drones.

In 2021, EOS Defence Systems brought to market Titanis, a fully integrated, scalable counter UAS (CUAS) suite combining specific detection, command and control (C2), and layered hard and soft kill defeat capabilities necessary to acquire, track and defeat swarming UAS threats.

EOS is determined to maintain its current place at the vanguard of this emerging technology, which has significant market potential, and development of the next generation of EOS CUAS technologies is already well underway.

C4 EDGE Program



EOS Defence Systems led a successful industry demonstration that showed off the capabilities of the domestic Defence sector in general, as well as its ability to meet the Australian Army's specific future communications

requirements, as part of the C4 EDGE (Command, Control, Communications and Computers – Evolutionary Digital Ground Environment) program.

The focus of the program was battle-critical communications solutions that could deliver advanced capabilities for the Australian Army, particularly in battlegroup and below areas.

As Prime Contractor, EOS played the lead role in assembling and coordinating the all-Australian industry collaboration, which included 31 of the nation's most innovative small- to medium-sized enterprises. Feedback on the demonstration from a range of stakeholders has been unanimously positive.



The T2000 turret, one of several EOS systems put through their paces at the Klondyke Range Complex

Live Firing Demonstrations at Klondyke Range Complex

EOS Defence Systems conducted live firing demonstrations at the private Klondyke Range Complex in western New South Wales, exhibiting the advanced capabilities of the Company’s T2000 Turret and Titanis systems.

This was an important development not only for EOS but also for the broader Australian defence ecosystem, given the longstanding shortage of suitable testing ranges in Australia – which has often forced EOS to conduct these demonstrations overseas.

EOS worked closely with the landowner to create a field firing environment in which a broad range of weapon systems can be tested safely, and the Company has plans to create further domestic ranges in the coming months and years.

Growing the Customer Base

Middle East

The number of systems delivered to our major Middle East customer grew steadily through the year, as did our in-country integration and testing capabilities. This contract, which is now delivering very high levels of customer satisfaction, resulted in invoicing of \$97.6 million over the year. Having established a “drumbeat” for the monthly delivery schedule, this contract will continue to deliver similar returns over the coming three years.

Sale to Thailand

Singapore-based EOS Defence Systems Pte Limited, a subsidiary of Electro Optic Systems, announced its first RWS acceptance by the Thailand Defence Technology Institute (DTI). DTI is the Thai agency tasked with overseeing all high-technology acquisition programs for the Thai military. The successful integration of the EOS R400S-Mk2-HD RWS with the Milrem Robotics THeMIS combat uninhabited ground vehicle (UGV) was fully endorsed by DTI and will be further evaluated by the Royal Thai Army in the coming year. EOS Defence Systems also received a contract for R150 systems to be delivered to DTI in 2022.



EOS R400S Dual Weapon System firing off a Royal Netherlands Army 8 x 8 Boxer Combat Reconnaissance Vehicle

UGV Sales to the Netherlands

The Royal Netherlands Army has purchased five R400 systems for evaluation on the THeMIS UGV and will deploy these systems in a NATO exercise in 2022. Systems are initially being trialled with the M2 .50Cal MG, but this will evolve to 30 mm dual systems as trials continue.

Successful Firing of R400 with Cannon on Dutch Boxer

The R400S Dual Weapon System was demonstrated firing off a Boxer 8 x 8 Combat Reconnaissance Vehicle to the Royal Netherlands Army in the Netherlands. This activity also included the demonstration of the R400S on the Milrem THeMIS UGV (non-live fire) as a preliminary to the deployment of weapon systems on remotely operated platforms.

2021 Awards

We were pleased to be recognised for our innovative work at the 2021 *Defence Connect* Australian Defence Industry Awards, where EOS Defence Systems was named Export Business of the Year and Manufacturer of the Year.



NAMISHA CHABBRA

Laser Engineer and Physicist

Namisha is an up-and-coming laser engineer and physicist working in the Directed Energy (DE) Laser team.

Her day-to-day work – which has the overarching goal of ensuring the quality of EOS’ laser-based products – involves technical as well as practical elements, and can include everything from crafting systems documentation to assembling laser systems to testing optical components so as to verify, as Namisha puts it, that they “do what we want them to do”.

Namisha, who grew up in Canberra, is the only member of her family with an engineering bent: her parents are both longtime public servants, while her sister works in law.

As a child, she remembers with a chuckle, she was “never your ‘Barbie-girl’ type”; instead, she always preferred being outside, experimenting,



Namisha Chhabra inspects a lens that will help to align laser light into an EOS sensor

building things and figuring out how they fit together and functioned. Her earliest engineering projects included smashing bricks in the family backyard, digging uncommonly large holes at the beach and using dubious methods to try to fix faulty home appliances – with occasionally disastrous results.

It’s fair to say her engineering abilities have advanced dramatically since those days.

“Growing up, maths and physics were my strongest subjects – and I always wanted to do something practical with them,” Namisha says.

On finishing high school, she strongly considered a combined Science/Commerce degree, which seemed to offer the clearest path to her goal of helping to create new technologies that would be useful to the world in general.

People around her, though, kept insisting she’d make a great engineer. Namisha took note and enrolled in an undergraduate Engineering degree at ANU before completing her Honours in Physics and honing her speciality in optical and laser systems.

Namisha is currently completing a PhD in tandem with her part-time

role at EOS. She says her work and studies are complementing each other extremely well, and that her job allows her to put theory into practice. “At uni, we experiment with lasers, but here, you really get to see how they can be commercialised and how someone might use them in the field.”

She notes that defence and space are two industries that are “always at the forefront of what’s new”, and that the technologies they create tend to trickle down to the rest of society over time.

Namisha is making the most of her opportunity to work on the cutting edge of laser engineering and learn from senior colleagues who rank among the most experienced practitioners in her field.

Outside of work, she enjoys bouldering, rock-climbing and kickboxing – the latter of which can be cathartic, she laughs, after a long day of grappling with complex engineering problems.

If Namisha could give her younger, brick-breaking self any advice, it would be to “follow your gut” – and to remember that “it’ll all work out okay”.



SPACE



EOS achieved a major breakthrough with its Guide Star Laser technology

This year saw the expansion of EOS Space Systems, following the merger of the former Communications Systems and Space Systems divisions.

We expect this consolidation, which has already streamlined a number of business processes, to increase our productivity in 2022 and beyond.

Throughout 2021, EOS Space Systems:

- continued to fulfil the terms of our domestic and international contracts
- continued to create and refine new space technologies
- undertook a range of activities aimed at facilitating growth across the broader Australian space sector, of which we are an acknowledged leader.

We also continued to create new jobs and business opportunities – including export opportunities – for our extensive, nation-wide network of domestic supply chain partners.

A summary of EOS Space Systems' key 2021 activities is given below.



EOS' SDA Control Room at the EOS Space Research Centre, Mount Stromlo

Guide Star Laser

EOS Space Systems unveiled an innovation in laser technology that is of significance to the entire global space community: a Guide Star Laser that facilitates a step change in laser performance and underpins multiple applications, including surveillance, laser ranging, laser effects and laser communications.

This "leap-forward" development – which generated considerable media attention and public interest – was the culmination of several years of R&D and represents a meaningful contribution to humanity's efforts to mitigate the growing threat of space debris.

Space Domain Awareness

We continued to produce timely, credible Space Domain Awareness (SDA) intelligence to meet the needs of our domestic and international partners, including the Australian Department of Defence, Geoscience Australia and certain US government agencies. This included renewing our operations and maintenance contracts with Geoscience Australia for a further three years.

EOS offers world-leading SDA capabilities through our geographically dispersed SDA network – which includes two major sites (in ACT and WA) that each house multiple telescopes and sensors – that can accurately detect, track and characterise the smallest and dimmest resident space objects both in daylight and at night-time.



Chief of Navy Vice Admiral Michael Noonan AO witnessing the over-the-air test of the eighth and final Cobra terminal for the Navy's Anzac Frigates

These advanced capabilities – which other commercial providers simply do not possess – give our SDA customers significant operational advantages.

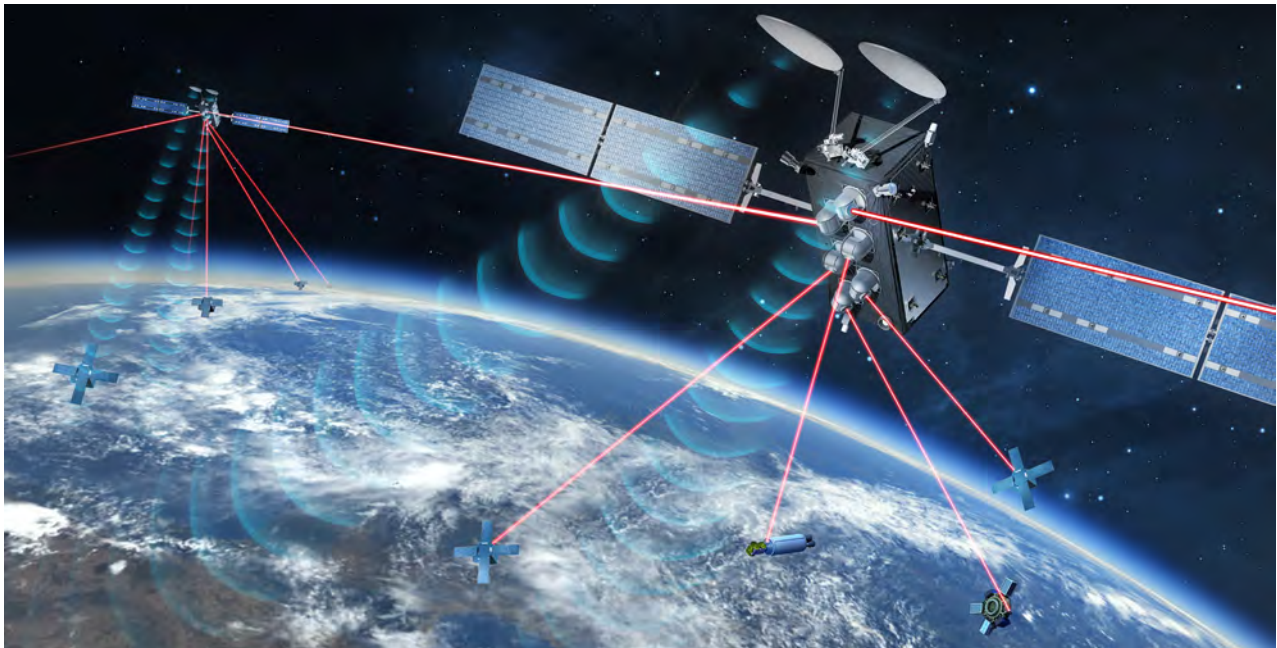
EM Solutions

EM Solutions' satellite communications technology is prized for its reliability, durability and versatility and is currently used by the Royal Australian Navy (RAN) and the Australian Border Force, as well as a range of international allied navies.

In a positive year for EM Solutions, we completed installation of the eighth and final one-metre "Cobra" satellite terminal on the RAN's frigate class ships and signed new contracts for Cobra terminals to be installed on the next three shipsets of the RAN's Offshore Patrol Vessels and Enhanced Cape Class Patrol Boats.

2021 also saw the release of the two-metre "King Cobra" Fleet maritime satellite terminal, the next-generation iteration of the one-metre class Cobra. Several European navies have already signed contracts calling for the delivery of the systems in the coming years.

EM Solutions is currently developing a hybrid satellite terminal that will offer even higher-data-rate communications.



The SpaceLink relay satellites use optical links to transmit data between spacecraft on orbit and the ground

SpaceLink

SpaceLink continued to solidify its supply chain and potential customer base, signing contracts with several key vendors and memoranda of understanding with various stakeholders in the commercial and civil space domains.

We also continued to hone our intellectual property in the promising area of space communications and data solutions. Among a range of related developments, SpaceLink was selected by the US Center for the Advancement of Science in Space (CASIS) to demonstrate an optical data relay service to the International Space Station.

SpaceLink is currently addressing a specific market need by developing a smaller on-orbit communications satellite ("Block-0") that will offer customers faster delivery, accelerated profitability and reduced costs.

SACT Exercises

EOS participated in three US-led commercial Sprint Advanced Concept Training (SACT) exercises.

We have built a reputation for providing high-quality SDA data to support civil and military operations at this prestigious global industry event, which acts as a sandbox for innovation and collaboration across the international space community.

At the exercises, EOS performed routine and dynamic tasking, daytime debris laser ranging, daytime non-LEO passive tracking, and rendezvous and proximity operation analysis, and supported many desired learning objectives. EOS has gained several accolades for our participation, through which we successfully demonstrated our SDA capabilities to the global commercial market.

M2 Mission Support

EOS provided mission support to the Royal Australian Air Force and UNSW Canberra's historic M2 Mission by supplying precision tracking data to monitor the separation of the M2 satellite into M2A and M2B and the subsequent demonstration of formation flying technologies and techniques.

This was one of a number of ad hoc collaborations with industry, academia and government in which we worked in the best interests of the domestic space community in general, in keeping with our goal of creating an enduring Australian space industry.

2021 Awards

We were proud to be recognised for our work at the 2021 *Space Connect* Australian Space Awards, where EOS Space Systems was named Business of the Year – Large, and at the 2021 *Defence Connect* Australian Defence Industry Awards, where EOS Space Systems was named Space Business of the Year and EM Solutions was named Naval Business of the Year.



JACOB DEBONO

Mechanical Engineer

Jacob works in EOS Space Systems' Mechanical Engineering team, whose focus, in broad terms, is the ruggedisation and mobilisation of EOS technologies.

He and his colleagues work to enhance the durability, stability and transportability of the many EOS products that rely on complex optical systems, including those used in the growing field of Space Domain Awareness (SDA), in which EOS is an acknowledged global leader.

The powerful but delicate optical equipment in EOS laser systems is typically built for use only in the laboratory, where every environmental element – from wind-induced vibration to humidity to temperature – must be rigidly controlled.

The Mechanical Engineering team develops, among other things, technology that addresses the shortcomings of lab-bound hardware so that the relevant components will be capable of withstanding large temperature fluctuations, the stresses of long-distance transport and other environment-related challenges. These advanced capabilities are among the factors that make EOS' SDA products industry-leading.

Jacob has been with EOS for just over two years, working with team leader Dejan Stevanovic, whose professional history includes positions at NASA and the Australian Department of Defence. Jacob says Dejan – “a fantastic mentor” – has



Jacob Debono at EOS' Space Research Centre at Mount Stromlo.

taught him a great deal about the highly specialised subfield of opto-mechanical engineering. “Pretty much any engineering question you ask,” he says with a smile, “Dejan tends to know the answer.”

When asked what he enjoys about his role, Jacob cites the collaborative, problem-solving nature of the R&D processes that are at the heart of EOS operations. He takes great satisfaction in the end-to-end nature of his job, as concepts move from whiteboard to rough sketch to finished product, “complete with maintenance manual”. He also prizes the variety; he spends roughly equal parts of his workdays behind the computer and out in the field, and every day brings fresh challenges and problems to be solved.

Jacob's engineering talent has led him into some remarkable experiences outside of work. He was heavily involved in establishing ANU's Solar Racing team and has competed in the Bridgestone World Solar Challenge, a 3022-kilometre sprint in solar cars from Darwin to Adelaide. In 2017, he was chosen from over 500 applicants to spend a year at the INFINITI Engineering Academy – a rare opportunity that included a six-

month spell at the Renault Formula 1 Team Technical Centre in the UK. For someone who had long been a devoted F1 fan, it was a dream come true.

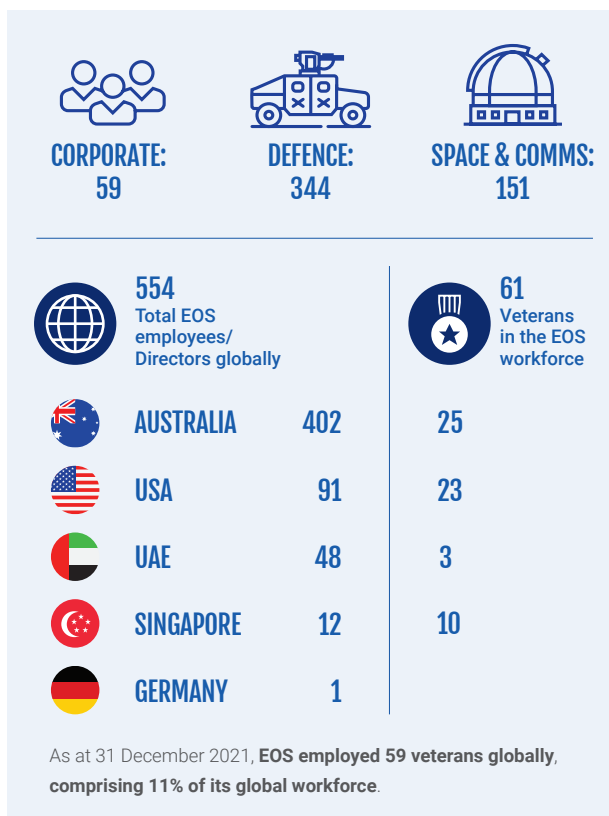
Jacob is passionate about renewable technology and sustainable engineering, and he believes strongly in giving back to the community through charity work. He was named a finalist in the Engineer of the Year category at the 2021 Momentum Media Space Awards.



EOS PEOPLE



EOS’ high-performing people are at the heart of everything we do and are fundamental to the success of our organisation.



Global Workforce

We are proud to employ a workforce that includes a diverse range of experiences and backgrounds, all of which contribute to a collaborative work environment where innovation and practical problem-solving are valued. EOS recognises the benefits that all forms of diversity bring to our Company.

Veterans

EOS is also proud to employ a significant number of defence force veterans (see below). We recognise and greatly value the unique perspectives and skills that veterans bring to the Company:

- Defence force veterans are an important part of our business, and in 2021 EOS became a “Soldier On” Platinum Pledge Partner.¹
- EOS engages with the Australian Department of Defence to arrange project and secondment opportunities for currently serving defence personnel, which assists personnel to transition into roles at organisations such as EOS following their military careers.

¹ See <https://pathways.soldieron.org.au/the-pledge/>.

Diversity and Inclusion

EOS is committed to maintaining an inclusive workplace that embraces and values diversity in all of its forms, including in regard to gender, race, ethnicity, disability, age, sexual orientation, gender identity, marital or family status, and religious and cultural background.

EOS prioritises the recruitment and retention of the best available talent at all levels, up to and including the Board of directors.

Our commitment to diversity allows us to make more informed and innovative decisions, drawing on the wide range of ideas, experiences, approaches and perspectives that employees from diverse backgrounds, and with differing skillsets, bring to their roles.

We recognise the relative lack of diversity in the industries in which we operate and are committed to taking action to redress this in our global EOS workforce.

Historically, the types of work and roles that EOS offers have commonly been filled by male employees and have not been seen as being attractive to female employees. We are working to address this, through improved advertising and recruitment processes.

The current gender split of EOS' workforce is broadly reflective of the number of women working in STEM fields more generally.

We are actively pursuing plans to increase the number of women in our workforce; for example:

- ensuring that our job advertisements are appealing to female candidates
- ensuring that our policies and procedures are wholly gender-neutral
- offering scholarships and internships for women considering STEM careers.

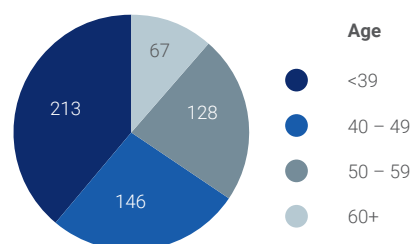
EOS has now achieved its earlier target of 30 percent female Board directors and plans to increase this target in future years.

We acknowledge that EOS has more work to do to improve Male:Female ratios across its workforce. Our ambition remains to improve this proportion markedly.

We have established goals and implemented measures to significantly improve the gender composition of the EOS workforce, including:

- continually measuring the percentage of female employees, including those in management positions
- including gender diversity as a consideration when selecting new Board members
- launching a scholarships and internship program for female STEM students to encourage female students to pursue STEM careers
- celebrating our female staff members through events and publications, and highlighting their successes through awards.

When hiring new employees or appointing current employees into new roles, EOS does not discriminate on the basis of age.



EOS recognises the importance of balancing the career experience that older personnel offer with the need to attract less experienced personnel (including recent graduates), while at the same time providing enhanced internal career development and growth for its entire workforce.

EOS is very mindful of the need to ensure that its employees have the full range of skills and experiences they require to do their jobs, irrespective of age.

| EOS Directors and Staff 2021 | Number | Female | Female % | Male | Male % |
|-------------------------------|------------|------------|------------|------------|------------|
| Board | 6 | 2 | 33% | 4 | 67% |
| Senior Management (CEO/EVP) * | 8 | - | - | 8 | 100% |
| Australia | 388 | 80 | 21% | 308 | 79% |
| Singapore | 12 | 2 | 17% | 10 | 83% |
| United States | 91 | 23 | 25% | 68 | 75% |
| United Arab Emirates | 48 | 10 | 21% | 38 | 79% |
| Germany | 1 | 1 | 100% | - | - |
| Total | 554 | 118 | 21% | 436 | 79% |

* "Senior Management" is defined as a manager who has a relatively high leadership role in the day-to-day responsibilities of managing the Company.



Staff Retention

A total of 87 employees left EOS employment in the course of 2021, equating to a global EOS staff attrition rate of ~16 per cent.

EOS appreciates that a certain amount of staff turnover is inevitable and is highly aware of the need to keep staff attrition to a modest level.

We have in place a range of initiatives to maintain an optimal level of staff retention, including:

- ensuring that newly hired employees are “onboarded” well
- maintaining a strong focus on workplace health and safety, so that the physical and mental health of our workforce is cared for
- managing employee remuneration, in line with budget, while also being cognisant of external market wage pressures and remuneration rates at some of EOS’ competitor organisations
- having a range of contemporary staffing-focused policies and procedures that are supportive of our desired workplace culture
- providing learning and development opportunities for our workforce, enabling professional growth
- enabling existing employees to be temporarily seconded into other roles or project teams, allowing them to apply their knowledge and skills in a different EOS context
- providing a suite of employment benefits to help to make EOS an attractive place to work.

Learning and Development

EOS is committed to the ongoing development of the skills of its workforce.

As a defence industry manufacturer, much of our staff training in 2021 involved on-the-job training in relation to our systems and processes, including our research and development capability.

Throughout 2021, we have maintained our accreditation against the management system standards set by ISO 9001:2015 – Quality Management Systems in respect to EOS Defence Systems Pty Limited. EOS is required to provide training to its workforce as part of this accreditation.

Through 2021, EOS staff members have been able to improve their skills, and acquire new skills, in the following ways:

- undertaking on-the-job training
- all employees across EOS’ Australian workforce have been required to complete a series of mandatory, EOS-developed learning modules covering:
 - the EOS Code of Conduct
 - work health and safety topics
 - preventing harassment and bullying in our workplaces
 - managing data in our IT environment, including by maintaining the strongest possible cyber-security and information security environments across EOS
- attending conferences and seminars (many in an online format, due to COVID-19-related restrictions)
- employees have been sponsored to undertake formal management and supervisory qualifications relevant to their roles
- given that COVID-19 prevented EOS employees from physically gathering together to undertake training programs throughout 2021, EOS purchased a significant number of LinkedIn Learning® licences, enabling staff members to access a wide range of learning programs in an online format. This mode of learning and development will be enhanced through 2022.

PAUL COSTIGAN

Senior Production Engineer

Paul, a Senior Production Engineer who predominantly works out of EOS' Queanbeyan production facility, understands the ins and outs of the Company's core technologies better than most.



Paul Costigan calibrates an optical table used in the production of EOS sensor units

Now in his seventh year with EOS, Paul has done a wide range of theoretical and practical work at the Company, and across several engineering teams – a testament to his diverse professional toolkit.

"The Company has given me plenty of opportunities to grow and develop," he reflects.

Paul grew up in Canberra and started at EOS as a graduate engineer, fresh out of a double Engineering (Hons)/Commerce degree at ANU.

Initially, he worked strictly on the production of thermal imagers, before being promoted into a lead role in that area. His work scope has since broadened to include EOS' best-in-class sensor units and thermal and day cameras, which are critical to a variety of defence products.

In his current role in the Production Engineering (PE) team – "a tightknit group", he says – Paul helps to manage the processes and documentation that govern how a number of EOS products are made. He also offers hands-on support if problems crop up on the production floor.

As an expert in refining and streamlining engineering processes, his primary goal is to stop those

problems from cropping up in the first place. When Paul says his job is about "continuous improvement", he's not repeating a corporate catchphrase – the concept is at the heart of all of his work at EOS.

Paul spent much of 2021 optimising production processes for EOS' new-generation hybrid day camera, ultimately reducing the time needed for a particular focus mapping process – one that allows the camera to be in focus throughout the entire zoom range – from around four hours to less than 15 minutes. This significant breakthrough, which will go a long way to preventing production bottlenecks, is just one recent example of the tangible value he brings to the Company.

Paul sees the broad-ranging skillsets within the multidisciplinary PE team as a major asset. "We've got electronics engineers, mechanical engineers, software engineers – even someone with a biomedical engineering background," he says. This means that when challenges appear, the team has access to a broad set of capabilities that can help to overcome them.

When not at work, Paul loves being with his family – which includes an

eight-month-old baby – and taking them on weekend adventures. He's also a dedicated gymgoer and is heavily involved in sport, as both player and spectator. (He particularly enjoys Oztag, "a less brutal version of rugby league".)

Paul's EOS story is one of continuing professional development, two-way loyalty and increasing responsibility over time. He has had a close-up view as the Company has expanded over recent years, as he has grown along with it.





COVID-19 and Employee Wellbeing

A significant workplace health and safety priority focus area throughout 2021 was to ensure that the impacts of COVID-19 on the EOS workforce were managed effectively. The EOS HR Department was set the following objectives:

1. Keep our people safe; and
2. Ensure business continuity.

In the 12 months to 31 December 2021, there were 18 (3.3%) instances of positive COVID cases across the EOS global workforce.

To manage the impacts of COVID-19, EOS adopted a range of strategies and plans throughout 2021, including:

- creating a suite of COVID-specific policies and procedures to protect both employees and EOS' business interests, the hallmark of which was our COVID-19 Global Strategy and Divisional Business Continuity Plans
- implementing a COVID-19 Ambassador role, which entailed offering employees a source of expert advice and noting the myriad federal, state/territory and local government rules to coordinate an effective, consistent approach to managing COVID-19 in all EOS places of work
- providing a range of leave entitlements applicable to employees who were deemed to be "close contacts", who contracted the COVID-19 virus themselves or who had significant carer responsibilities

- enabling many staff members to work from home on a remote working basis, without needing to physically come into EOS premises
- revising Business Continuity Plans so that, in the event of a significant COVID-19 outbreak in a section of our workforce, we could respond quickly and effectively to protect employee health and ensure that our business needs could be met
- giving employees, through the EOS intranet, easy access to public health information and government agency requirements specific to managing instances of COVID-19 in the community and in EOS workplaces.

Work Health and Safety

Throughout 2021, EOS has continued to have a very strong focus on managing workplace health and safety.

EOS globally had just five instances of workplace injury in 2021. While EOS always aims to have zero workplace incidents and accidents, it is to be noted that of the five incidents reported, four did not require any time off work and were relatively minor in nature.

We have in place a workplace health and safety committee structure and regularly undertake walk-around site inspections and formal audits of WHS activities in our workplaces.

All employees are regularly reminded of the importance of following EOS' work health and safety policies and procedures and of complying with all relevant safe work procedures, as applicable to their duties.



OUR COMMITMENT TO STEM



EOS Scholarship recipient Jessica Kreskay at the Andy Thomas Space Foundation 11th Australian Space Forum with James Bennett, Vice President, EOS Space Systems and Jackie Carpenter, founder of the One Giant Leap Foundation

EOS is deeply committed to nurturing, through practical support, the next generation of Australian science, technology, engineering and mathematics (STEM) practitioners.

R&D has been embedded in EOS’ organisational DNA since the Company’s earliest days, and it is accurate to say that EOS has been built on the back of STEM research.

It’s therefore appropriate that the Company – a widely recognised leader in the domestic STEM ecosystem – offers significant financial and other assistance to up-and-coming Australian STEM practitioners.

We do this via a range of formal scholarships, awards and internship programs; by directly funding emerging and cutting-edge STEM research; and through ad hoc collaborations with Australia’s leading universities.




In part, these activities serve a straightforward business imperative: to achieve its organisational objectives, EOS requires a steady supply of highly qualified STEM staff members who can dream up and develop innovative, industry-leading technologies. (The entire EOS Space Systems team, for example, are degree-qualified, while 30 per cent are PhD-qualified.)

In a broader sense, EOS is – and always has been – passionate about the manifold benefits that domestic STEM innovation can bring to the wider national economy and national security. These include:

- creating onshore manufacturing and technology jobs
- building enduring, nation-wide domestic supply chains
- improving Australia’s sovereign capabilities and, by extension, its national security
- enhancing Australia’s growing global reputation as a technological innovator.

With the above in mind, EOS has directly funded more than \$20 million in Commonwealth-sponsored STEM research in the last five years alone. The Company also undertakes a range of activities designed to ensure the ongoing health of Australia’s STEM pipeline; a selection of recent examples are summarised below.

2021 STEM Activities

| | | |
|---|--|---|
|  <p>EOS Space Systems Research Awards</p> |  <p>EOS Scholarships for Future Excellence in STEM</p> |  <p>EOS Professorial Chair in Laser Physics</p> |
| <p>Applicants were required to submit a short research project proposal outlining the motivation behind their research and expected results, and to discuss the potential impact of their project on the space science community.</p> <p>Winners were selected for their outstanding research project proposals in the fields of space science and engineering and were each awarded a \$10,000 prize.</p> <p><i>2021 winners:</i> Lauren Fell, Sabrina Slimani, Skevos Karpathakis and Joshua Critchley-Marrows.</p> | <p>EOS provides funding of between \$4000 and \$8000 to be used in a way that helps recipients learn about and explore opportunities in STEM.</p> <p>Recipients are selected for their outstanding achievements in, and passion for, space.</p> <p><i>Each receiving \$4000:</i> Lisa Rheinberger (Macquarie University), Francesca Dobbie (Merewether High School, NSW), Jessica Kreskay (Moorefield Girls High School, NSW)</p> <p><i>Scholarship and internship, receiving \$8000:</i> Olivia Widjaja (UNSW); see profile below</p> | <p>The University of South Australia (UniSA) Chair, Professor David Lancaster, will create two postdoctoral positions and establish a world-leading research and teaching group in areas closely aligned to core EOS capabilities in Space Domain Awareness.</p> <p>This development comes in the wake of EOS' recent establishment of the Professorial Chair in Microwave and Photonic Engineering and Applied Electromagnetics at the University of Queensland.</p> |

OLIVIA WIDJAJA

EOS Space Systems Intern

Olivia Widjaja, a 2021 EOS Scholarship for Future Excellence recipient, is currently studying a Bachelor of Engineering (Hons), with a particular focus in aerospace engineering, at UNSW.

For her internship with the Company, Olivia has been embedded in EOS Space Systems' Astrodynamics and Software teams, observing and contributing to efforts to refine an existing software program used to characterise the orbital state of a new object when it is detected by EOS' optical tracking systems. This technology is an important component of EOS' Space Domain Awareness capabilities.

Dr James Bennett, Vice President, EOS Space Systems, has been particularly involved in mentoring Olivia and helping her gain as much as possible from her chance to work with some of the domestic space industry's most experienced and knowledgeable practitioners.

Olivia's current thinking about her future STEM career is that she would one day like to help to "push the boundaries of the space industry" – an ambition that aligns well with her internship and everything she has been working on.

"I hope to see myself working in a company that specialises in space sustainability, such as EOS, and

reducing the amount of space debris in preparation for commercialising spaceflight."

The funding and practical experience that EOS is giving Olivia will help to bring that dream closer to reality.



SUPPORTING OUR SUPPLY CHAIN PARTNERS

We are proud to support the continuous growth of our domestic supply chain partners and to showcase their capabilities to the global defence, space and communications markets.

EOS has reliable access to a range of international commercial opportunities and organisations that would typically be out of reach to the dozens of small- to medium-sized enterprises (SMEs) – many of them family owned and operated – within our Australian supply chain.

These SMEs create bespoke technologies that have great utility for a range of commercial, civil and government organisations globally; however, domestic demand for their products can sometimes be insufficient to ensure the businesses’ ongoing viability.

EOS is committed to helping our Australian supply chain partners grow by incorporating their technologies into EOS products; by giving them a degree of ongoing business certainty; by familiarising them with the exacting requirements of the global defence and space industries; and by sharing our organisational expertise in the manufacture and export of high technology products.

This commitment extends beyond the simple awarding of work packages or purchase orders, and can include

everything from helping suppliers assess global business opportunities to fostering SME collectives to address the problem of scale that limits the expansion of many homegrown companies.

EOS also supports the growth of manufacturing wherever we operate, creating employment and wider economic benefits for communities along our supply chains. Many EOS suppliers operate in rural or regional areas that face higher-than-average levels of unemployment, and by working with these companies we help to secure jobs and upskill workforces in these parts of Australia.

In 2021, EOS exposed Australian businesses from a number of adjacent sectors to defence programs and contracting processes through the C4 EDGE program, which focused on sovereign military communications solutions.

EOS has long been committed to using Australian-made components in its products wherever feasible, and our relationships with domestic suppliers tend to be longstanding and based on two-way trust. We are dedicated to advancing the organisational health of smaller onshore industry participants, which will be critical to the establishment of enduring sovereign defence and space industries.

The positive economic impacts of our business activities extend far beyond our own organisation and are shared in by our vast network of domestic and global suppliers.

NUMBER OF SUPPLY CHAIN BUSINESSES:



Defence
146



Space & Comms
343

EOS’ domestic supply chain includes hundreds of businesses – located in all corners of the country – that create and support thousands of onshore manufacturing and STEM jobs.

Our Australian suppliers operate in a wide range of adjacent industries, and EOS works actively to help them to grow their businesses and navigate global markets.



Building Australian Industry Capability

EOS is dedicated to utilising and advancing Australian Industry Capability (AIC).

The significant investment in AIC reflects the Company's longstanding commitment to growing sovereign Australian defence, space and communications industries that are globally competitive.

Our benchmark for local content is more than 80 per cent for products delivered to the ADF and more than 70 per cent for export products.

EOS maintains high benchmarks for local content in products delivered to Australian and international customers.



Australian customers

**MORE THAN 80%
AUSTRALIAN CONTENT**



International customers (exports)

**MORE THAN 70%
AUSTRALIAN CONTENT**

CORPORATE SOCIAL RESPONSIBILITY

The increasing complexity of EOS’ business necessitates robust corporate governance.

Our business operates under a clear and purposeful governance framework that:

- promotes transparency
- ensures accountability
- manages risk throughout the Company appropriately
- deals with all stakeholders respectfully
- calls for careful stewardship of the environment.

There are three key pillars that underpin our corporate governance framework, as shown below.

EOS Corporate Governance Framework

| Environmental | Social | Governance |
|---------------------------------|--|--|
| Energy efficiency management | Management of the wellbeing of the EOS workforce | Board governance |
| Safe disposal of chemical waste | Employee Assistance Program | Board diversity |
| Waste management | Support for charities (e.g. ex-defence force veterans) | Compliance with all relevant legislation |
| Water usage and conservation | Workplace health and safety | Modern Slavery Statement |
| | Workplace benefits | |

Our Commitment to Ethical Exports

EOS defence products are exported from Australia to allies and coalition partners of Australia and the US, and access is subject to simultaneous formal approval by both these countries. This dual restriction renders these products among the most highly controlled in the world, since both the US and Australia closely observe the laws of armed conflict and apply high human rights standards.

Human Rights and Defence Exports

EOS operates under Australian and US export controls that are designed to protect human rights around the globe.

Australia is a participating state in a number of multilateral export control regimes, and the Department of Defence assesses export applications against legislative criteria that include human rights and Australia’s international obligations.

Meanwhile, the US controls the export, import and use of military items under the International Traffic in Arms Regulations process, with these regulations operating separately and in addition to Australian controls.

To obtain necessary export approvals, EOS technologies undergo rigorous assessments under Australian and US export control systems to confirm that they will not be used to carry out human rights abuses.

This approach helps to ensure the integrity of our exports and the safety of communities around the world.

Environment

EOS recognises the need for businesses to:

- take active steps to mitigate the environmental impacts of their operations
- address the environmental challenges facing the planet and space.

Our approach to environmental considerations is underpinned by judicious compliance with government legislation and all related regulations.

EOS is committed to:

- a culture of energy efficiency
- minimising resource usage in both the manufacturing and the corporate context
- ensuring that our waste is disposed of appropriately.

REVIEW OF OPERATIONS

For the year ended 31 December 2021

1. Results for full year ended 31 December 2021

The consolidated entity ("EOS") or reported an operating loss after tax of \$13,841,610 for the twelve-month period to 31 December 2021 (31 December 2020: \$25,207,896) after allowing for income tax expense of \$9,230,936 (31 December 2020: \$4,693,154 income tax benefit). Revenues from ordinary activities were \$212,330,648 (31 December 2020: \$180,182,366).

The net loss before income tax of \$4,610,674 represents a Loss Before Interest and Tax of \$1,697,584 after adjusting for interest expense of \$2,913,090 (refer note 2c). Foreign exchange gains of \$9,797,241 contributed to this result.

The consolidated entity reported net cash generated by operations for the twelve-month period totalling \$221,454 (31 December 2020: \$109,159,317 net cash used by operations). At 31 December 2021, the consolidated entity held cash totalling \$59,260,655 (31 December 2020: \$65,933,499).

Key elements of financial performance are:

Revenue and Other Income

For the year ended 31 December 2021 EOS recorded revenue and other income of \$213.3m (2020: \$190.3m) representing an increase of \$23m (12.1%).

The increase in revenue was driven by the Defence segment (\$184.5m, 18.0% increase), the Communications segment (\$23.3m, 19.3% increase) and the Space segment (\$4.5m, 5.0% increase).

Loss Before Tax

Loss before tax for the year was \$4.6m compared to a 2020 loss before tax of \$29.9m (improvement of \$25.3m).

This was driven by the revenue increase of \$32.1m, a fall in other income of \$9.1m, material costs remaining reasonably steady (decrease of \$4.4m), a \$25.5m reversal in foreign exchange (2021: \$9.8m gain, 2020: \$15.7m loss), an increase in employee benefits expense of \$16.0m, an increase in administration expense of \$6.1m and an increase in interest expense of \$1.5m.

EBITDA and EBIT

EBITDA for 2021 was \$11.9m compared to an EBITDA loss of \$18.9m in 2020.

Underlying EBITDA (excl. foreign exchange gains / losses) for 2021 was \$2.1m (2020: loss of \$3.2m).

EBIT for 2021 was a loss of \$1.7m (2020: loss of \$28.5m).

Underlying EBIT (excl. foreign exchange gains / losses) for 2021 was a loss of \$11.5m (market guidance loss of \$11m to loss of \$15m) compared to a 2020 underlying EBIT loss (excl. foreign exchange gains / losses) of \$12.8m.

Foreign Exchange

The above results were heavily influenced by a foreign exchange gain in the year of \$9.8m (2020: loss of \$15.7m).

Cash

Total cash receipts for the year were \$233.9m (2020: \$107.6m). The significant increase in cash receipts was largely due to the start of payments under a major export contract, where EOS received cash of \$94.4m during the year.

Net cash flow from operating activities was an inflow of \$0.2m (2020: outflow of \$109.2m) driven mainly by cash receipts, a reduction in income tax paid and an increase in interest and costs of finance paid due to the new \$35m debt facility entered into during the year.

Cash outflow from investing activities was comparable with 2020 (\$0.7m increase in outflow).

As referenced above, the Consolidated Entity entered into a debt facility during the year which contributed to a net cash inflow from financing of \$30.6m (2020: inflow of \$135.9m mainly due to the issue of new shares).

These resulted in a net cash outflow for the year of \$6.9m and, after foreign exchange adjustments, a closing cash balance of \$59.3m (2020: \$65.9m).

Contract Asset

The contract asset arises due to a difference between when the Consolidated Entity is required to recognise revenue under Australian Accounting Standards and when it is able to invoice customers.

The contract asset is largely comprised of amounts relating to one significant export contract.

As at 31 December 2021 the contract asset was \$128.3m (31 December 2020: \$137.9m). The relatively small movement in the balance masks that during the year the consolidated entity invoiced \$97.6m against a major export contract and \$1.7m against other contracts. This invoicing was offset by new, un-invoiced revenue in export and domestic programs and foreign exchange adjustments leading to a net reduction of \$9.6m.

2. COVID-19 Impacts in 2021

EOS continues to be impacted by the ongoing COVID-19 pandemic. In 2020 and flowing into early-2021, the largest impacts from COVID-19 within EOS were felt by EOS Defence Systems ("Defence") arising from disruption to its global supply chain, international transport systems, and its customers' ability to conduct tests for product acceptance or for contract award.

These issues delayed the achievement of performance milestones required prior to invoicing customers, which flowed through into delayed cash receipts. The issues are subsiding due to improved practices and an easing of restrictions on business globally.

The Company adopted measures to prevent the spread of infection and reduce operational impact from COVID-19. These steps proved relatively effective with only 18 employees (approximately 3.5% of global workforce) reporting that they contracted COVID-19 during 2021. Despite this and other COVID-19 restrictions, EOS achieved a record annual rate of production of remote weapon systems (RWS).

Some contract awards were delayed during the year as qualifying live firing tests were cancelled or delayed, and governments deferred program awards and announcements. The delay in contract awards coupled with record levels of production resulted in a reduction of backlog to \$342m at 31 December 2021 compared with \$429m as at the end of 2020.

It is expected that the normal conversion of pipeline to contracted backlog will resume in H1 2022.

3. Organisational Restructure

In September 2021, EOS combined the Space Systems and Communications Systems divisions into one division with tighter linkages between space and communications activities where synergies can now be better exploited to improve profitability. Operational integration was initiated in FY21.

The new EOS Space Systems division ("Space") is led by Mr Glen Tindall, and Dr Craig Smith has taken up a new role as Group Chief Technology Officer.

4. EOS Defence Systems

Defence completed a challenging yet successful year in 2021 when revenue and divisional profit reached record levels despite COVID-19 disruptions. Growth was strong across all areas of the Defence portfolio, including in the support and sustainment sector which is driven by cumulative sales over the prior decade.

Key results for Defence were:

- Revenue of \$184.5m represents a 18.0% increase over the corresponding prior period.
- Underlying EBIT of \$17.1m compares to an underlying EBIT loss of \$9.6m in the corresponding prior period.

These results were achieved while Defence maintained a high level of investment of funds and human capital in research and development, especially for directed energy products.

The business produced 271 RWS for five customer programs during a period where COVID-19 had its biggest impact thus far on our Australian facilities. The workforce improved productivity in both production and support programs, over levels achieved by the business in 2020.

The Defence team also successfully delivered the C4 EDGE Program in Australia, several customer funded development contracts in Australia, the US, South-East Asia and Europe, as well as numerous customer demonstrations around the world. These activities have positioned the business to take immediate advantage of the opportunities arising from defence markets reopening and rapidly emerging geostrategic challenges.

Commonwealth Remote Weapon Systems (RWS) Contract

In September 2020, EOS contracted with the Commonwealth of Australia for the delivery of 251 RWS and related materiel. The production of these systems was successfully completed in 2021 and delivery of the related materiel will be completed in 2022.

A key focus of this accelerated acquisition was the preservation of the Australian supply chain for advanced defence manufacture. This objective was achieved.

The design, engineering and production work completed on this program will deliver significant benefits to future production effort for the Australian Defence Force (ADF), coming initially on the RWS contracted for Land 400 Phase 2 and then on other RWS requirements.

Counter Uninhabited Aircraft System (CUAS) Developments

EOS has invested significant resources to develop a complete range of capabilities for the defeat of drones. Over the past four years a substantial development, test and demonstration program based in Australia, USA and the Middle East has established EOS as the only western hemisphere provider with the entire suite of direct kill capabilities supported by a full suite of detection, jamming and command capabilities that are required to defeat sophisticated drone attacks.

While other companies offer CUAS solutions that have similar detection and jamming capabilities to the EOS Titanis system (Titanis), key advantages to EOS come from long-term leadership in precision hard kill engagement of moving and manoeuvring targets.

EOS is unique in the ownership of both directed energy (laser) and remotely operated weapon systems that are optimised to defeat drone attacks. Competitive pricing and very low per-drone-kill cost efficiency of these capabilities makes Titanis a singular system in the CUAS market. Demand for demonstration of this capability for proliferating acquisition programs in allied countries is stretching the availability of EOS personnel and equipment.

In Q2 2020 EOS was selected as the preferred provider of CUAS capability for a large program for critical infrastructure protection. Customer delays in providing the financial, logistic and technical support to enable pre-award testing of the full EOS system have delayed the award which is now expected in H2 2022.

Meanwhile operational use of drones in military conflict is escalating rapidly, driving demand for this technology and in particular EOS' directed energy capability.

Prime Contractor for C4 EDGE Program

In December 2021 an all-Australian industry team, led by EOS as Prime Contractor, successfully demonstrated an Australian-developed tactical secret Command, Control, Communications and Computing ("C4") solution under a \$34.3m contract with the Australia Army.

The demonstration of a sovereign Battlegroup and Below Battlefield Command System in such a short period of time using only Australian technology was a major achievement. The C4 EDGE capability will help address the Army's significant future requirements for sovereign communications systems. The Government's 2020 Defence Strategic Update lays out an investment pipeline for battlefield communications and command systems of between \$5.0bn and \$7.5bn over the next 20 years.

Marketing and Demonstrations

A key pre-requisite for securing defence contract awards is the successful demonstration of products in realistic conditions. Over the course of 2021, Defence conducted live fire demonstrations both in Australia and overseas. Highlights were:

- The R400 Dual Weapon System was demonstrated shooting off a Boxer 8x8 to the Royal Netherlands Army in the Netherlands. This activity also included the demonstration of the R400 on the MILREM THeMIS UGV (non-live fire) preliminary to the deployment of weapon systems on remotely operated platforms to counter drones.
- In the US, the local EOS Defence team demonstrated R400 and R150 systems to the Program Manager of the US Army Crew Served Weapons program at Fort Benning in Georgia as well as participating in the annual Bushmaster User Conference, hosted by Northrop Grumman in Arizona, with R400 and R150 systems.
- In 2021, Defence established the capability to conduct live fire test, development and demonstration shooting in Australia at the Klondyke Range Facility in Western NSW. This range enables Defence to test fire out to a range of 32 kilometres.

Defence also moved forward with doctrinal and thought leadership publications and activities to help customers address rapid technological and geopolitical change. These efforts address the impact of drones and AI as well as adapting force planning and projection against new geopolitical threats.

Customers are considering a future environment where significant combat power could be applied anywhere

on earth without requiring a large contingent of human operators. This future capability could be based upon the application of a number of EOS-developed technologies including RWS, free space optical communications and high bandwidth satellite communications.

Other customer engagement activities throughout 2021 included a large presence at the Land Forces Conference in Brisbane, the DSEI Conference in London and the AUSA Conference in Washington DC. Despite COVID-19, foreign delegations were received from several nations.

EOS Space Systems

Organisational Structure

In September 2021, the former Communications Systems and Space Systems divisions were merged to form an enlarged EOS Space Systems ("Space") under unified management. This merger allows for better synergies between the technical teams now totalling approximately 150 full-time staff, around half of which hold engineering or science degrees.

Rowan Gilmore retired as CEO of EM Solutions in December 2021 and EM Solutions management passed to Georgios Makris, Vice President Operations and John Logan, Vice President Programs. This transition had been planned for some time and was executed smoothly. In January 2022 Rowan Gilmore was appointed to the newly created position of Deputy Chief Executive Officer at EOS.

The SpaceLink organisation expanded to approximately 30 full-time staff at the end of 2021. To be close to customers, suppliers, and regulators SpaceLink established offices in the US in both Tyson's Corner, Virginia and Mountain View, California.

EM Solutions

EM Solutions ended 2021 with a record order backlog of \$42m, representing around 18 months of capacity. The order book reflects a healthy mix of demand across multiple product lines and multiple customers across Europe, North America, Asia and Australia.

New contracts have been signed for Cobra terminals for the next three shipsets of the Royal Australian Navy (RAN) SEA1180 (Offshore Patrol Vessels) and the six SEA1445 (Enhanced Cape Class Patrol Boats) projects.

Additional contracts have also been signed for 2m Fleet terminals by three European navies for delivery in 2022 through 2024.

The eighth and final Cobra terminal for the RAN's Anzac Frigate quality-of-life upgrade was completed during the year, an occasion marked by a visit to EM Solutions from the Chief of Navy, Vice Admiral Michael Noonan.

In Australia, EM Solutions was awarded Naval Business of the Year for 2021 by the specialist industry magazine, Defence Connect.

EM Solutions has increased supply of Ka-Band transceivers for use on deployable SATCOM terminals manufactured by a leading US Defence contractor. EM Solutions made a strategic decision to expand its product offering into the space sector and has already received an order by a North American satellite manufacturer for RF subsystems to be used on a next generation satellite platform.

Development of the new 2m Fleet terminal remains on schedule. In December EM Solutions was able to demonstrate its tracking performance to the RAN. First deliveries are due in 2022.

The first Cobra Antenna Diversity Systems (ADS) were shipped to complete deliveries for the Cobra systems ordered by three European navies. These systems allow customers to optimise usage and allocate resources between the typical two, or three, antenna units fitted to a vessel.

EM Solutions achieved certification of the Cobra ADS for use with the Wideband Global SATCOM system (WGS), the high-capacity United States Space Force satellite communications system. This is a significant achievement as it allows operation on the largest defence satellite network in the world.

EM Solutions is continuing to develop a hybrid optical / RF communications terminal which will allow higher data rate communications for users. EM Solutions successfully demonstrated that the tracking technology used in the Cobra and Fleet terminals is sufficiently accurate for the antenna to provide an optical communications link.

Disruption to the global supply chain for electronics and semiconductors was managed through careful management of the supply chain and sourcing alternate componentry. EM Solutions has avoided any major delays to production due to supply chain.

With COVID-19 lockdowns preventing staff from travelling, EM Solutions trialled and successfully completed the first remotely supported terminal installation for a European customer. A representative office was established in the Netherlands to support our customers in the Benelux area, notably several European navies. This decision proved especially useful during COVID-19 restrictions when it was difficult to fly internationally.

Space Technologies

Space provides technology solutions to address global requirements for space debris mitigation, space traffic management, space domain awareness and space communications. These solutions typically comprise EOS sensors integrated with large EOS real-time software platforms that manage vast and rapidly changing data sets. Space is frequently an incubator for advanced technologies deployed in other EOS divisions.

The Space Systems team continued their focus on R&D activities for the group as well as managing the two current space laser tracking stations at Mount Stromlo, ACT and Learmonth, WA observatories.

In 2021, Space Systems announced a major development in laser technology which can significantly advance the global effort to mitigate space debris. This innovation involves the use of a Guide Star Laser to allow high speed adaptive optics to form laser beams that can track and move space debris at lower altitudes and faster speeds than previously possible. This intellectual property, owned by EOS, was developed in collaboration with the Space Environmental Research Centre (SERC) and will now be commercialised. Applications range from space debris mitigation to high bandwidth satellite communications. Space Systems has also provided laser technology and R&D expertise for the development of high-power laser systems for CUAS systems for Defence applications.

EOS Space Systems is continuing to strengthen its credentials as Australia's premier provider of ground based optical sensors by participating in a range of domestic and international space domain awareness (SDA) exercises highlighting EOS' capability ability to find, fix, track and assess a variety of space objects.

During the Sprint Advanced Concept Training (SACT) 21-3 exercise, a global space operations' training event, led by the US Space Force, EOS was able to track objects with high fidelity in all orbital regimes and provide timely military intelligence into several key space events. This included the optical tracking of a cubesat during the daytime. Data from EOS was specifically singled out for its quality of data and the analysis provided. EOS also completed an integration activity with the SDA Marketplace, an e-commerce marketplace for space data, and successfully completed a trial data supply contract.

The Australian Department of Defence awarded EOS a contract to participate in SACT 22-1 with live demonstrations of several new and emerging space capabilities. This included demonstrating daytime laser ranging to uncooperative space objects (objects without retroreflectors) and observing several space objects during the daytime. EOS is the first Australian company to

have developed such daytime sensing technologies and this will increase the observing capacity of the EOS SDA network.

EOS Space Systems was awarded the Defence Connect Space Business of the Year for 2021.

SpaceLink

The SpaceLink team conducted an industry Request for Proposal (RFP) in May 2021, followed by a Request for Tender (RFT) process resulting in selection of primary vendors for the satellite buses, payload and ground segment. Contracts were awarded to several key vendors, the most notable being in September 2021 SpaceLink announced it had selected OHB System AG (OHB) of Germany as the preferred manufacturer of SpaceLink's Block-1 constellation of MEO satellites. SpaceLink then entered into an Authority to Proceed (ATP) agreement with OHB to undertake a co-engineering phase intended to deliver an optimised satellite design that was suited to OHB production capabilities and met all SpaceLink performance requirements.

As announced to the ASX on 25 February 2022, during the ATP major improvements in design were identified leading to an increase in satellite capacity and lifetime. These improvements however also resulted in an extension of the expected project schedule by six months and a cost increase from US\$700m to US\$750m.

As a result of this, and against a backdrop of declining capital markets and market pressure for earlier service delivery, SpaceLink applied new technology to the design of a lower cost constellation (Block-0) providing full service before mid-2024. The new design will achieve service delivery on orbit for a total project cost of US\$240m.

For further details refer to the ASX release of 25 February 2022.

SpaceLink customer engagement is proceeding well with multiple Memoranda of Understanding (MoUs) being signed in the commercial domain and strong partnerships developing in the civil space domain. SpaceLink is seeing rapid progress with US defence and intelligence community customers, and the focus is on securing awards for services from 2024.

SpaceLink was selected by the Center for the Advancement of Science in Space (CASIS) to provide a demonstration of an optical data relay service to the International Space Station (ISS).

6. Outlook

Rising Geopolitical Tensions

A hallmark of 2021 has been rising geopolitical tensions in Eastern Europe, the Middle East and North Asia. Adding to these tensions has been the impact of the COVID-19 pandemic which has highlighted the fragility of supply chains resulting in product shortages and reinforcing the importance of national manufacturing capabilities in areas such as pharmaceuticals and defence.

Space has rapidly become a more contested domain with more countries developing and demonstrating their space capabilities. Governments have recognised that space is a critical domain for both commerce and national security, and are allocating greater resources for SDA, as well as offensive and defensive technologies.

Relevance of EOS Technologies

In recent years EOS investments in technology development have focused on secure and resilient communications, directed energy, CUAS capability, space asset protection and remotely operated systems.

All of these areas are now experiencing strong demand, and EOS business divisions expect to benefit as Australia and its allies invest in these new capabilities. EOS customers are increasing their current and planned outlays for advanced defence technology, and are coinvesting with EOS in research, development and testing.

Some examples of the technologies of interest are:

- Hypersonic glide missiles and hypersonic missiles with speeds of between Mach 3 and Mach 12 have been tested by two countries in the past several years requiring the development of new defensive weapon systems.
- Anti-satellite capabilities supported by an array of sensors to characterise and target space assets are being developed by several nations. Multiple attack options (cyber, electronic, directed energy weapons; anti-satellite missiles; or space-based weapons) enable potential adversaries to damage or destroy satellites. To date, four countries have successfully tested missiles to destroy satellites in low earth orbit. Three of these demonstrations have occurred in the past two years. The recent destruction of a Russian satellite is estimated to have generated approximately 1,500 pieces of extra space debris elevating the need for enhanced SDA capabilities.
- Attacks on high value infrastructure targets using a combination of drones and missiles have escalated, triggering strong demand for counter drone technologies including directed energy defences.
- Australia has recognised that space is a domain critical to Defence operations and has recently established a space capability. The Force Structure Plan committed \$7bn over the next decade to transition the ADF from a consumer to a sovereign contributor in space. According to the Air Force, "this investment will also provide new and exciting opportunities for Australian industry". Defence has committed to transform the way it operates in space, including "satellite communications, space domain awareness, positioning, navigation and timing, and earth observation capabilities".
- Uninhabited Autonomous Vehicles (UAVs) is a rapidly emerging technology that has the potential to transform force projection and force protection. At its core is secure, responsive and resilient communications. Within EOS, the integration of technologies from C4 EDGE, Defence Systems, EM Solutions and SpaceLink will be critical to emerging UAV programs.

Momentum and Headwinds

A) Positive Momentum

The Company achieved significant progress in key areas across the Group:

- Production volumes increased to record levels despite ongoing productivity constraints due to COVID-19 and staff shortages.
- Gross margin of the major revenue segments was at or above prior levels in 2021, with a strong improvement in group profitability.
- SpaceLink achieved advances in terms of customer development, satellite projected performance and business model profitability, and then leapt ahead with a faster, better, cheaper option to launch its space communication services.
- Management of the impacts of COVID-19 has improved, and even though the processes and procedures that were successful in 2021 may not apply efficiently to the next developments in the pandemic, a response culture has been developed.
- Supply chain performance improved in terms of reduced disruption and cost, as initial elements of lean production are implemented.

- The Company restructured to two coherent P&L segments, expanded and improved management, and accelerated succession processes throughout leadership positions as required for the next stages of growth.
- Cash receipts of \$94.5m were received from a foreign customer under an existing contract, and a similar amount of receipts are expected from this program in 2022.
- Revenue deferred from Q4 2021 is on track to be recognised in 2022, and provided Q4 2022 deliveries are maintained on schedule, could add momentum to 2022.

(B) Headwinds

The Company enters 2022 with headwinds that it is addressing:

- Against a history of near-best practice in staff retention, the Company is experiencing higher levels of staff turnover due to national skills shortages, intense salary competition, and COVID-19 impacts on health and well-being.
- The cost of capital is inexorably increasing as inflation increases and capital market uncertainties increase globally. This will inhibit rapid growth in EOS if not addressed. The Company is responding by tightening focus across opportunities and reducing costs to preserve capital for the best growth opportunities. This situation is not expected to ease in 2022.
- Backlog at \$342m has fallen to around 1.5 years of current revenue, below the Company's preferred level of two years, while still meeting aerospace norms. No expected (higher than 50% probability) contract award has been lost to a competitor, and the backlog decline is principally due to COVID-19 delays in awards. This situation should correct through 2022 as customers emerge from a long period of COVID-19 induced disruption to their business processes.
- The Company's pipeline assessment, risk-weighted for probability of success, has recently been reduced to \$2.6bn driven by a tighter focus on business opportunities, revised expectations of capital, human resource availability, and updated market and competitor intelligence. A tighter focus typically leads to improved probability of success in the remaining opportunity set, so a rebound in the risk-weighted pipeline may occur through 2022.

2022 Outlook

Whilst the Omicron variant of COVID-19 is not expected to significantly impact on EOS's ability to deliver existing contracts on time and on budget in 2022, there remains a risk that the emergence of new COVID-19 variants may have an adverse impact on our suppliers, customers, employees and EOS operations. Since the onset of COVID-19, the Company and its suppliers have used the time to adjust and develop increased resilience. The steps taken to diversify supply chains, hold additional componentry, and minimise the risk of spread of COVID-19 in the workplace are likely to limit disruption caused by any future outbreak.

Rising geopolitical tensions, particularly in Eastern Europe, the continuing COVID-19 pandemic and a Federal election in Australia all introduce uncertainty to forecasting outcomes for 2022. Notwithstanding, management expects revenue growth in 2022.



Ben Greene
Chief Executive Officer
31 March 2022

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 2021.

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 |
|-------------------------------|---|
| Lt Gen Peter Leahy AC | Chairman (27 July 2021 – Current) (age 69). Appointed to the Board on 4 May 2009 (length of service – 12 years). Peter Leahy AC retired from the Australian Army in July 2008 as a Lieutenant General in the position of Chief of Army. Among his qualifications he holds a BA (Military Studies) and a Master of Military Arts and Science. 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 and a member of the advisory board to Warpforge Limited. In other activities he is the Chairman of the charity Soldier On, the Red Shield Appeal Committee in the ACT, the Australian Student's Veterans Association and is a member of the Advisory Council of China Matters. He was Chairman of the Company's Audit and Risk Committee and a member of the Nominations and Remuneration Committee until his appointment as Chairman. |
| Dr Ben Greene | BE (Hons), Phd in Applied Physics (age 71) is the Chief Executive Officer of Electro Optic Systems. Dr Greene was involved in the formation of Electro Optic Systems Pty Limited. 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 Deputy Chair of the Western Pacific Laser Tracking Network (WPLTN) and has recently served as member of Australia's Prime Ministers Science, Engineering and Innovation Council (PMSEIC) and CEO of the Cooperative Research Centre for Space Environment Management. Appointed to the Board of Electro Optic Systems on 11 April 2002 (length of service - 19 years). |
| Air Marshal Geoffrey Brown AO | Non-executive director (age 63). Appointed to the Board on 21 April 2016 (length of service – five years). Geoffrey Brown AO retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institution of Engineers Australia and is a Fellow of the Royal Aeronautical Society. He is a Director of Lockheed Martin (Australia) Pty Limited, Chairman of the Sir Richard Williams Foundation and Chairman of the Advisory Board of CAE Asia Pacific. He is Chairman of the Nominations and Remuneration Committee and a member of the Audit and Risk Committee. |

| Name | Particulars |
|--------------------|--|
| The Hon Kate Lundy | <p>HonLittD, GAICD. Non-Executive director (age 54) appointed to the Board on 23 March 2018 (length of service – four years). Kate Lundy served as a Senator representing the Australian Capital Territory from 1996 to 2015. During this time she held various front bench positions in both Government and Opposition, including the Minister for Sport, Multicultural Affairs and Assisting on Industry and Innovation and the Digital Economy.</p> <p>Kate continues to be passionate about technology and innovation. Her focus is the positive impact of technology on society, culture and the economy. In 2017, the Australian National University awarded her a Doctor of Letters (honorary doctorate) for her “exceptional contributions to advocacy and policy for information communications and technology, for the ACT and nationally.”</p> <p>In 2017 Ms Lundy was inducted into the Pearcey Hall of Fame for “distinguished achievement and contribution to the development and growth of the Information and Communication Technology Industry”. The Pearcey Foundation is named in honour of Dr Trevor Pearcey, an outstanding Australian ICT Pioneer, notable for his leadership of the project team that built one of the world’s earliest digital computers, the CSIR Mark 1, later known as CSIRAC.</p> <p>Kate is a non-executive director of the Australian Grand Prix Corporation, the National Roads and Motoring Association and the Cyber Security Research Centre. Kate is the Chair of the National Youth Science Forum and Deputy Chair to the Board of the Canberra Institute of Technology. Kate is also a member of ACT Defence Industry Advisory Board and ACT Defence Industry Ambassador. She is a member of the Audit and Risk Committee and a member of the Nominations and Remuneration Committee.</p> |
| David Black | <p>BA(Hons), FCA, MBA, GAICD. Non-executive director (age 51) appointed to the Board on 1 January 2021 (length of service – one year). David is the Chair of the Audit and Risk Committee and a member of the Nominations and Remuneration Committee. Before retiring from the Deloitte Touche Tohmatsu Australia partnership in 2016, David Black spent 25 years with Deloitte in the UK and Australia. During that time David provided services to a range of clients including in the Defence, Manufacturing and Government sectors. David’s experience includes working with growing start-up businesses, multinational corporations and the boards of ASX listed entities on complex accounting, internal and external auditing, risk management, corporate governance and due diligence engagements. David previously served as the audit partner of Deloitte Touche Tohmatsu for the Company for the periods ending from June 2005 to December 2009 and June 2012 to June 2016.</p> <p>David is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Institute of Chartered Accountants in England and Wales, has a BA(Hons) in Economics, an MBA and is a Graduate of the Australian Institute of Company Directors.</p> <p>Since his retirement from Deloitte, David has established a growing family business, The Coastal Brewing Company, and serves on two Government sector audit committees as the independent member, Chairing one of those committees.</p> |
| Deena Shiff | <p>B.Sc. (Econ) Hons (London School of Economics), LLB (University of Cambridge), Fellow AICD. Non-executive Director (age 67) appointed 7 December 2021 (length of service – 1 month). Deena has had a senior executive career, legal career and has worked for government. Deena was the first woman to be appointed to the role of Group Managing Director at Telstra Corporation. Deena is a former legal Partner at Mallesons Stephen Jacques and has served in regulatory in-house counsel roles.</p> <p>Deena is currently Chairman of the Supervisory Board of Marley Spoon A.G., non-executive Director of Appen Limited and Pro Medicus Limited. Deena is also the Chairman of the Australian Broadband Advisory Council and is on the Board of Opera Australia.</p> <p>Deena was previously the Chairman of BAI Communications and a director of Infrastructure Australia and Export Finance Australia.</p> |

| Name | Particulars |
|------------|--|
| Fred Bart | Chairman (retired 27 July 2021) (age 67). He has been Chairman and Director of numerous public and private companies since 1980, specialising in manufacturing, property, technology and marketable securities. He is also Chairman of Audio Pixels Holdings Limited, Noxopharm Limited and a director of Weebit Nano Limited. Appointed to the Board on 8 May 2000 and retired on 27 July 2021 (length of service – 21 years). |
| Ian Dennis | Non-executive director (retired 28 May 2021) (age 64) BA, C.A. 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 twenty-five years. Prior to that, he was with KPMG Chartered Accountants in Sydney. He is also director and company secretary of Audio Pixels Holdings Limited. He was a member of the Audit and Risk Committee and the Nominations and Remuneration Committee. He was also company secretary of Electro Optic Systems Holdings Limited until 27 August 2021. Appointed to the Board on 8 May 2000 and retired on 28 May 2021 (length of service – 21 years). |

The above-named directors held office during and since the end of the financial year, apart from:

- David Black who was appointed as a director on 1 January 2021
- Deena Shiff who was appointed as a director on 7 December 2021
- Fred Bart who retired as a director on 27 July 2021
- Ian Dennis who retired as a director on 28 May 2021

Lt Gen Peter Leahy AC, Air Marshall Geoffrey Brown AO, the Hon Kate Lundy, Deena Shiff and David Black are considered independent directors.

On 28 May 2021 Morgan Bryant was appointed as Company Secretary.

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 |
| | Weebit Nano Limited | 6 March 2018 to date |
| | Noxopharm Limited | 8 May 2020 to date |
| Ian Dennis | Audio Pixels Holdings Limited | 5 September 2000 to date |
| Lt Gen Peter Leahy AC | Codan Limited | 19 September 2008 to date |
| | Citadel Group Limited | 27 June 2014 to 9 December 2020 |
| Deena Shiff | Marley Spoon A.G. | 5 June 2018 to date |
| | Appen Limited | 15 May 2015 to date |
| | Pro Medicus Limited | 1 August 2020 to date |

Principal activities

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

The Company is listed on the Australian Securities Exchange.

Review of Operations

A detailed review of operations is included on pages 33 to 39 of this financial report.

Changes to the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial period.

Share issues

On 15 March 2021, the Company announced the issue of 1,185,000 ordinary fully paid securities at \$5.27 under the Loan Funded Share Plan.

On 31 May 2021 the Company issued 150,000 ordinary fully paid securities at \$4.06 per share under the Loan Funded Share Plan in accordance with Resolution 6 passed by Shareholders at the Annual General Meeting on 28 May 2021.

During the year staff repaid loans under the Loan Funded Share Plan in respect of 83,125 shares at \$2.99 each amounting to \$248,544.

Subsequent events

On 23 February 2022 SpaceLink Corporation ("SpaceLink"), a wholly owned subsidiary of the consolidated entity, executed two agreements with OHB System AG ("OHB").

(a) A Deed of Agreement which finalised the amounts due to OHB under the Authority to Proceed contract which was entered into between the parties on 15 October 2021 and ran to 14 December 2021.

An amount of US\$3,000,000 (A\$4,131,588) has been recorded as a liability in other payables as at 31 December 2021 representing the full and final settlement of all amounts due to OHB for that period.

The amount of US\$3,000,000 (A\$4,131,588) has also been recorded as an addition to capital work in progress as at 31 December 2021, representing the value of the foreground IP and materials developed by or procured by OHB using these funds and transferred to SpaceLink.

(b) A Heads of Agreement which sets out the contractual relationship between SpaceLink and OHB going forward relating to the development of Block-1 of the SpaceLink Satellite Data Relay Constellation.

Under this Agreement SpaceLink has agreed to:

- Pay OHB costs incurred by OHB between 1 January 2022 and 24 February 2022 with third party vendors in respect of potential deliverables for inclusion in Block-1 activity which has now been deferred. The amount payable is up to US\$7,000,000 in aggregate
- Offer OHB an agreement to undertake Risk Management Activities in relation to Block-1 over a 15-month period with such agreement to be on a cost-plus basis and initially funded by SpaceLink to US\$5,000,000

On 17 March 2022 EOS announced that it had engaged Greenhill & Co. as financial adviser to assist in undertaking a strategic review, including ensuring all feasible funding options are explored and assessed in the context of the broader range of strategic options for EOS. As at the date of this report no outcome from the strategic review has been determined.

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.

There have been no other transactions or events of a material and unusual nature between the end of the reporting period and the date of the report likely, in the opinion of the Directors of the Company, to significantly affect the operations of the consolidated entity, the results of those operations, or state of affairs of the consolidated entity in future years.

Deed of Cross Guarantee

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited, entered into a deed of cross guarantee with two of its Australian wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, EM Solutions Pty Limited entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

Future Developments

The Company will continue to operate in the space, defence systems and communications businesses. 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.

Ethical labour

The consolidated entity has established measures regarding fair labour practices and guidelines that create a respectful and safe work environment for our employees globally. The Company is committed to treat all of its employees with respect and strictly prohibits the use of slavery, forced labour and human trafficking. To prevent the occurrence of forced, compulsory or child labour, the consolidated entity has implemented local labour policies and practices to comply with the Modern Slavery Act. Any person who applies for employment with the Company does so on a voluntary basis and all employees are legally entitled to leave upon reasonable notice without penalty. In accordance with the Company's global recruiting guidelines, offers of employment must be conditional upon successful completion of required background checks. Background checks are required to protect the safety of employees and to ensure that employees meet the Company's standards.

Diversity

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, The Company's diversity policy ("Diversity Policy") was updated on 23 March 2020 and outlines its diversity objectives in relation to gender, age, cultural background, ethnicity, employment of veterans and other factors to leverage the widest pool of available talent. A copy of the Company's Diversity Policy is available on the Company's website.

Section 6 of the Diversity Policy states that the Company will establish appropriate and meaningful objectives for achieving gender and other forms of diversity.

The Company's current objectives are to:

- improve the participation of women in the workforce by measuring the percentage of female employees and the percentage of those females in management positions;
- reduce the number of workplace harassment complaints by measuring annual occurrences and reducing these to zero;
- improve retention of staff by measuring the percentage of employees who access flexible workplace arrangements including flexible hours and alternative work cycles; and
- encourage retention of staff by measuring the number of staff who access company education and study assistance to enhance personal and corporate development opportunities.

As at 31 December 2020, the Group's gender diversity mix is as follows:

| EOS Directors and Staff 2021 | Number | Female | Female % | Male | Male % |
|-------------------------------------|---------------|---------------|-----------------|-------------|---------------|
| Board | 6 | 2 | 33% | 4 | 67% |
| Senior Management (CEO/EVP) | 8 | - | - | 8 | 100% |
| Australia | 388 | 80 | 21% | 308 | 79% |
| Singapore | 12 | 2 | 17% | 10 | 83% |
| United States | 91 | 23 | 25% | 68 | 75% |
| United Arab Emirates | 48 | 10 | 21% | 38 | 79% |
| Germany | 1 | 1 | 100% | - | - |
| Total staff | 554 | 118 | 21% | 436 | 79% |

Commentary

"Senior Management" is defined as a manager who has a relatively high leadership role in the day-to-day responsibilities of managing the Company.

Section 8 of the Diversity Policy requires the Company to disclose in each of its annual reports a summary of the Diversity Policy and the achievement of the objectives of the Diversity Policy. The Company achievements in meeting the objectives are as follows:

- EOS continues to improve the participation of women in the workforce. There has been an increase in female staff from 103 (2020) to 116 (2021);
- EOS is committed to reduce the number of harassment complaints reported each year. In 2021 there were no incidents reported across the consolidated entity;
- Flexible working arrangements including work from home has increased substantially in 2021 in light of the Covid-19 pandemic; and
- In 2021 EOS invested \$50,000 in the EOS Space Systems Research Awards, in which grants of up to \$10,000 were awarded to STEM candidates with a particular focus on Indigenous Australians, women and applicants from rural and regional areas. EOS also established the EOS Scholarships for Future Excellence in STEM in which funding scholarships were provided to support women in STEM education and work programs, as well as establishing internships within EOS with a view to increasing gender diversity in STEM careers.

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

No options were granted to any director of Electro Optic Systems Holdings Limited during the year.

On 15 March 2021, the Company issued 475,000 unlisted options at an exercise price of \$5.27 to directors, executives and employees of overseas subsidiaries expiring on 16 March 2026 under the Employee Share Option Plan.

On 22 July 2021, the Company issued 280,000 unlisted options at an exercise price of \$4.31 to executives and employees of an overseas subsidiary expiring on 22 July 2026 under the Employee Share Option Plan.

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

There were 1,830,000 unlisted options outstanding at year end. 1,075,000 options were granted in previous reporting periods whilst 755,000 were granted in the current year, as per the table below.

| Options | Issue Date | Expiry Date | Exercise Price |
|------------------|------------------|------------------|----------------|
| 220,000 | 20 June 2018 | 31 March 2023 | \$2.99 |
| 635,000 | 19 May 2020 | 18 May 2025 | \$4.75 |
| 220,000 | 16 November 2020 | 16 November 2025 | \$5.82 |
| 475,000 | 15 March 2021 | 16 March 2026 | \$5.27 |
| 280,000 | 22 July 2021 | 22 July 2026 | \$4.31 |
| 1,830,000 | | | |

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.

Loan funded share plan ("LFSP")

Shareholders approved the issue of 5,180,000 restricted ordinary shares on 24 April 2018 to directors, senior executives and staff. The restricted ordinary shares were issued on 20 June 2018 at a price of \$2.99, being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

On 19 May 2020 the Company issued 2,270,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$4.75 being the same price as the institutional placement announced on 15 April 2020.

On 29 May 2020 shareholders approved the issue of 2,500,000 ordinary shares to directors at a price of \$4.92 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

On 10 August 2020 the Company issued 860,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$5.62 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

On 14 October 2020 the Company issued 150,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$5.47 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

On 15 March 2021 the Company issued 1,185,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$5.27 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

On 31 May 2021 the Company issued 150,000 ordinary shares to a Director under the Loan Funded Share Plan and in accordance with a resolution passed by shareholders at the Annual General Meeting on 28 May 2021 at a price of \$4.06 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

During the year, the Company provided interest free loans to the Directors of \$609,000 and staff of \$6,244,950 to enable them to acquire the shares under the Loan Funded Share Plan. This resulted in the total amount of the loans outstanding under the Loan Funded Share Plan being \$50,224,331 at year-end.

Loan funds under the LFSP are limited recourse in nature, meaning that the Company's recourse is limited to the shares. If at the date that the loan becomes repayable the Directors or Employees shares are worth less than the outstanding balance of the loan, the Company cannot recover the difference from the Director or Employee. Interest will not be payable on the outstanding balance of the loan.

All shares issued under the LFSP are held in an employee share trust, on behalf of all participants. The name of the Trust is EOS Loan Plan Pty Ltd as trustee for the Share Plan Trust. All shares under the LFSP are also subject to a holding lock until all conditions and the loan are satisfied.

The Shares issued to Directors are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. Directors are required to satisfy the Vesting Conditions in order for their Shares to vest. While Directors hold their Shares, they will be subject to Forfeiture Conditions and Directors will forfeit their Shares if either they fail to satisfy the Vesting Conditions or they cease to be employed or continue to provide services to EOS or a consolidated entity or group company in certain circumstances.

Fred Bart and Ian Dennis were assessed by the Board as good leavers upon their retirement. Therefore, they did not forfeit their loan funded shares and these are included in outstanding balances at 31 December 2021.

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares become vested and Directors may deal with them in accordance with the rules of the LFSP subject to sale restrictions and other legal restrictions (such as under the Company's trading policy).

The ordinary shares issued under the LFSP were issued to an employee share trust on behalf of the following participants as follows:

| Directors | 20 June 2018 Issue | Sold during 2020 | 19 May 2020 Issue | 29 May 2020 Issue | 10 August 2020 Issue | 14 October 2020 Issue | 15 March 2021 Issue | 31 May 2021 Issue | Lapsed shares at 31 December 2021* | Balance of shares outstanding at 31 December 2021 |
|---------------------------------------|--------------------|------------------|-------------------|-------------------|----------------------|-----------------------|---------------------|-------------------|------------------------------------|---|
| Lt Gen Peter Leahy AC (Chairman) | 200,000 | - | - | 100,000 | - | - | - | - | (50,000) | 250,000 |
| Dr Ben Greene (CEO) | 2,000,000 | - | - | 2,000,000 | - | - | - | - | (1,000,000) | 3,000,000 |
| Mr David Black | - | - | - | - | - | - | - | 150,000 | - | 150,000 |
| Air Marshall Geoffrey Brown AO | 200,000 | - | - | 100,000 | - | - | - | - | (50,000) | 250,000 |
| The Hon Kate Lundy | 200,000 | - | - | 100,000 | - | - | - | - | (50,000) | 250,000 |
| Ms Deena Shiff | - | - | - | - | - | - | - | - | - | - |
| Mr Ian Dennis (Retired) | 200,000 | (50,000) | - | 100,000 | - | - | - | - | (50,000) | 200,000 |
| Mr Fred Bart (Retired) | 200,000 | - | - | 100,000 | - | - | - | - | (50,000) | 250,000 |
| Directors Total | 3,000,000 | (50,000) | - | 2,500,000 | - | - | - | 150,000 | (1,250,000) | 4,350,000 |
| Employees | | | | | | | | | | |
| Dr Craig Smith | 250,000 | - | 80,000 | - | - | - | - | - | (40,000) | 290,000 |
| Mr Glen Tindall | - | - | - | - | 330,000 | - | - | - | - | 330,000 |
| Mr Grant Sanderson | 250,000 | - | 160,000 | - | - | - | 90,000 | - | (80,000) | 420,000 |
| Mr Michael Lock | - | - | - | - | - | - | 165,000 | - | - | 165,000 |
| Mr Neil Carter | - | - | - | - | 500,000 | - | - | - | - | 500,000 |
| Mr Peter Short | 250,000 | - | 160,000 | - | - | - | 90,000 | - | (80,000) | 420,000 |
| Mr Scott Lamond | 250,000 | - | 80,000 | - | - | - | - | - | (40,000) | 290,000 |
| Mr Tahir Khan | - | - | 100,000 | - | - | - | - | - | - | 100,000 |
| Other Senior Employees | 1,180,000 | (152,500) | 1,690,000 | - | 30,000 | 150,000 | 840,000 | - | (310,000) | 3,427,500 |
| Employees Total | 2,180,000 | (152,500) | 2,270,000 | - | 860,000 | 150,000 | 1,185,000 | - | (550,000) | 5,942,500 |
| Total, Directors and Employees | 5,180,000 | (202,500) | 2,270,000 | 2,500,000 | 860,000 | 150,000 | 1,185,000 | 150,000 | (1,800,000) | 10,292,500 |

*The following conditions were not met:

- Share price hurdle of \$9.50 by 31 December 2021, resulting in 1,250,000 shares issued to Directors lapsing.
- Space systems profit exceeds \$3m for 2021, resulting in 117,500 shares issued to Space Systems staff lapsing.
- EBIT of \$36m by 2021, resulting in 432,500 shares issued to KMP and other senior employees lapsing.

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, 22 Board meetings, six Audit and Risk Committee meetings and three Nominations and Remuneration Committee meetings were held.

| Directors | Board of directors | | Audit and Risk committee | | Nominations and Remuneration committee | |
|------------------------------------|--------------------|----------|--------------------------|----------|--|----------|
| | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended |
| Lt Gen Peter Leahy AC ¹ | 22 | 22 | 3 | 3 | 2 | 2 |
| Dr Ben Greene | 22 | 22 | - | - | - | - |
| Air Marshal Geoff Brown AO | 22 | 22 | 6 | 6 | 3 | 3 |
| The Hon Kate Lundy | 22 | 22 | 6 | 6 | 3 | 3 |
| Mr David Black | 22 | 22 | 6 | 6 | 3 | 3 |
| Ms Deena Shiff ² | 1 | 1 | - | - | - | - |
| Mr Fred Bart ³ | 8 | 8 | - | - | - | - |
| Mr Ian Dennis ⁴ | 6 | 6 | 3 | 3 | - | - |

¹ Lt Gen Peter Leahy AC resigned from the Audit and Risk Committee after becoming Chairman on 27 July 2021.

² Appointed 7 December 2021

³ Retired 27 July 2021

⁴ Retired 28 May 2021

Remuneration report (Audited)

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

Lt Gen Peter Leahy AC (Chairman, Non-executive director)
 Dr Ben Greene (Chief Executive Officer and director)
 Air Marshal Geoffrey Brown AO (Non-executive director)
 The Hon Kate Lundy (Non-executive director)
 Mr David Black (Non-executive director) (appointed 1 January 2021)
 Ms Deena Shiff (Non-executive director) (appointed 7 December 2021)
 Mr Fred Bart (Chairman, Non-executive director) (retired 27 July 2021)
 Mr Ian Dennis (Non-executive director) (retired 28 May 2021)

Mr Grant Sanderson (Chief Executive Officer - EOS Defence Systems Pty Limited)
 Mr Glen Tindall (Chief Executive Officer – EOS Space Systems Pty Limited)
 Mr Michael Lock (Chief Financial Officer – Electro Optic Systems Pty Limited) – Appointed 1 March 2021
 Mr Peter Short (Chief Operating Officer – Electro Optic Systems Pty Limited)
 Dr Craig Smith (Chief Technology Officer – Electro Optic Systems Pty Limited) until 30 September 2021 *
 Mr Tahir Khan (Acting Chief Financial Officer – Electro Optic Systems Pty Limited) until 28 February 2021 #
 Mr Scott Lamond (Chief Financial Officer – Electro Optic Systems Pty Limited) until 28 February 2021 #
 Mr Neil Carter (Chief Strategy Officer – Electro Optic Systems Pty Limited) until 8 November 2021 ^

* Dr Smith assumed the role of Chief Technology Officer from 1 October 2021. Dr Smith was previously the Chief Executive Officer of EOS Space Systems Pty Limited. Dr Smith was not included in KMP at 31 December 2021.

Mr Khan assumed the role of Acting Chief Financial Officer for the period 28 August 2020 to 28 February 2021. Mr Lamond maintained authority and responsibility for planning, directing and controlling activities of the consolidated entity during this period. Mr Khan and Mr Lamond were not included in KMP at 31 December 2021.

^ Mr Carter left the Company on 8 November 2021.

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

The Directors are responsible for remuneration policies and packages applicable to the Board members and executives of the consolidated entity. The consolidated entity has a separate Nominations and 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.

Directors' shareholdings

The following table sets out each Director's relevant interest in shares, restricted ordinary shares under the LFSP of the company or a related body corporate as at the date of this report.

| Directors | Fully paid ordinary shares | Fully paid ordinary shares restricted – LFSP issued on 20 June 2018 | Fully paid ordinary shares restricted – LFSP issued on 29 May 2020 | Fully paid ordinary shares restricted – LFSP issued on 31 May 2021 | Lapsed shares at 31 December 2021 [^] | Balance of Fully paid ordinary shares restricted – LFSP outstanding at 31 December 2021 |
|-------------------------------|----------------------------|---|--|--|--|---|
| Lt Gen Peter Leahy AC | 60,077 | 200,000 | 100,000 | - | (50,000) | 250,000 |
| Dr Ben Greene | 3,987,139 | 2,000,000 | 2,000,000 | - | (1,000,000) | 3,000,000 |
| Air Marshal Geoffrey Brown AO | 19,335 | 200,000 | 100,000 | - | (50,000) | 250,000 |
| The Hon Kate Lundy | 6,694 | 200,000 | 100,000 | - | (50,000) | 250,000 |
| Mr David Black | 10,880 | - | - | 150,000 | - | 150,000 |
| Ms Deena Shiff | - | - | - | - | - | - |
| Mr Fred Bart [*] | 5,324,010 | 200,000 | 100,000 | - | (50,000) | 250,000 |
| Mr Ian Dennis [#] | 41,843 | 150,000 | 100,000 | - | (50,000) | 200,000 |

^{*} Fred Bart retired as Director on 27 July 2021. These shareholdings reflect his interests as at the date of resignation.

[#] Ian Dennis retired as Director on 28 May 2021. These shareholdings reflect his interests as at the date of resignation.

[^] Refer to the table on page 21 which details restricted shares forfeited upon failure to meet share-price hurdles.

Movement in Director shareholdings during the 2021 are set out in the Remuneration Report.

The fully paid ordinary restricted shares were issued on 20 June 2018 under the LFSP at a price of \$2.99 and are subject to vesting and performance criteria.

The fully paid restricted shares were issued on 29 May 2020, following approval at the Annual General Meeting, under the LFSP at a price of \$4.92 and are subject to vesting and performance criteria.

The fully paid restricted shares were issued on 31 May 2021, following approval at the Annual General Meeting, under the LFSP at a price of \$4.06 and are subject to vesting and performance criteria.

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 29 May 2020, when shareholders approved a maximum aggregate remuneration of \$1,000,000 per year excluding options.

The amount of aggregate remuneration provided to Directors is approved by shareholders. The manner in which it is apportioned amongst Directors, and the policy of granting options to Directors, is determined by Directors within the limits set by shareholders.

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 received a fee in recognition of additional services provided to the consolidated entity up to 31 August 2021.

Executive Director and Senior Management remuneration

Objective

The consolidated entity aims to award Executives with a level and mix of remuneration commensurate with their position and responsibilities within the consolidated entity 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 consolidated entity. 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. The CEO has a 180 day notice period under his employment contract and the other senior management have 90 day notice periods under their employment contracts.

Director remuneration

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

| | Short term | | Post Employment | Equity | Other Long Term Benefits | Total |
|-------------------------------|---------------|--------------|-----------------|------------------------|--------------------------|-----------|
| | Salary & Fees | Non-monetary | Super-annuation | Loan Funded Share Plan | | |
| 2021 | \$ | \$ | \$ | \$ | \$ | \$ |
| Lt Gen Peter Leahy AC | 91,260 | - | 8,966 | 32,641 | - | 132,867 |
| Dr Ben Greene* | 703,878 | 26,163 | 27,498 | 593,214 | 178,410 | 1,529,163 |
| Air Marshal Geoffrey Brown AO | 63,782 | - | 6,218 | 32,641 | - | 102,641 |
| The Hon Kate Lundy | 63,782 | - | 6,218 | 32,641 | - | 102,641 |
| Mr David Black | 63,782 | - | 6,218 | 23,941 | - | 93,941 |
| Ms Deena Shiff | 4,359 | - | 436 | - | - | 4,795 |
| Mr Fred Bart | 95,745 | - | 9,255 | 18,512 | - | 123,512 |
| Mr Ian Dennis# | 116,636 | - | 2,530 | 13,146 | - | 132,312 |
| | 1,203,224 | 26,163 | 67,339 | 746,736 | 178,410 | 2,221,872 |

* Executive Director during the financial year

Includes fees for company secretarial and accounting consultancy services provided of \$90,000

| | Short term | | Post Employment | Equity | Other Long Term Benefits | Total |
|-------------------------------|---------------|--------------|-----------------|------------------------|--------------------------|-----------|
| | Salary & Fees | Non-monetary | Super-annuation | Loan Funded Share Plan | | |
| 2020 | \$ | \$ | \$ | \$ | \$ | \$ |
| Mr Fred Bart | 127,854 | - | 12,146 | 31,510 | - | 171,510 |
| Dr Ben Greene* | 746,193 | 26,163 | 28,827 | 477,261 | 67,401 | 1,345,845 |
| Mr Ian Dennis# | 279,927 | - | 6,073 | 31,510 | - | 317,510 |
| Lt Gen Peter Leahy AC | 63,927 | - | 6,073 | 31,510 | - | 101,510 |
| Air Marshal Geoffrey Brown AO | 63,927 | - | 6,073 | 31,510 | - | 101,510 |
| The Hon Kate Lundy | 63,927 | - | 6,073 | 31,510 | - | 101,510 |
| Mr David Black | - | - | - | - | - | - |
| | 1,345,755 | 26,163 | 65,265 | 634,811 | 67,401 | 2,139,395 |

* Executive Director during the financial year

Includes fees for company secretarial and accounting consultancy services provided of \$216,000

Other long-term benefits include annual leave and long service leave expensed during the year.

Executive remuneration

No executives are employed by the holding company. The following table discloses the remuneration of the executives of the consolidated entity for the period during which they were considered key management personnel:

| | Short term | | Post Employment | Equity | | Total |
|--------------------|---------------|--------------|-----------------|------------------------|--------------------------|-----------|
| | Salary & Fees | Non-monetary | Super-annuation | Loan Funded Share Plan | Other Long Term Benefits | |
| 2021 | \$ | \$ | \$ | \$ | \$ | \$ |
| Dr Craig Smith | 266,948 | - | 25,827 | 5,508 | 22,596 | 320,879 |
| Mr Scott Lamond | 56,059 | - | 5,326 | 2,143 | (4,913) | 58,615 |
| Mr Grant Sanderson | 347,032 | - | 33,836 | 42,698 | 12,484 | 436,050 |
| Mr Peter Short | 347,032 | - | 33,702 | 48,958 | 46,099 | 475,791 |
| Mr Neil Carter | 508,835 | - | 44,120 | 62,167 | - | 615,122 |
| Mr Glen Tindall | 350,000 | - | 34,125 | 33,860 | 20,267 | 438,252 |
| Mr Tahir Khan | 56,059 | - | 5,326 | 2,766 | 6,247 | 70,398 |
| Mr Michael Lock | 294,923 | - | 28,779 | 53,979 | 22,615 | 400,296 |
| | 2,226,888 | - | 211,041 | 252,079 | 125,395 | 2,815,403 |

| | Short term | | Post Employment | Equity | | Total |
|--------------------|---------------|--------------|-----------------|------------------------|--------------------------|-----------|
| | Salary & Fees | Non-monetary | Super-annuation | Loan Funded Share Plan | Other Long Term Benefits | |
| 2020 | \$ | \$ | \$ | \$ | \$ | \$ |
| Dr Craig Smith | 358,197 | - | 34,029 | 25,921 | 23,639 | 441,786 |
| Mr Scott Lamond | 358,197 | - | 34,029 | 26,383 | 10,041 | 428,650 |
| Mr Grant Sanderson | 358,197 | - | 34,029 | 33,647 | 20,798 | 446,671 |
| Mr Peter Short | 358,197 | - | 34,029 | 33,647 | 16,662 | 442,535 |
| Mr Neil Carter | 215,577 | - | 20,480 | 43,028 | 4,238 | 283,323 |
| Mr Glen Tindall | 168,269 | - | 15,986 | 30,869 | 12,181 | 227,305 |
| Mr Tahir Khan | 130,003 | - | 12,350 | 10,580 | 22,671 | 175,604 |
| | 1,946,637 | - | 184,932 | 204,075 | 110,230 | 2,445,874 |

No options were granted to or exercised by any director or executive during 2021 and 2020. Ordinary shares in relation to the Loan Funded Share Plan were granted during 2021.

Other long-term benefits include annual leave and long service leave expensed during the year.

Loan funded share plan

Vesting Principles

The Shares will vest at the end of each 'Vesting Period' in the manner set out in the tables below, provided that the following conditions are met:

- (a) Directors and employees continue to provide services to EOS on each of the vesting dates (or such other date on which the Board makes a determination as to whether the Vesting Condition has been met); and
- (b) the performance hurdles set out below are satisfied, which relate to the Company's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for Shares to vest under each Tranche; or
- (c) Directors resolve to extend and/or waive performance hurdles as set out below for staff only, noting that Directors cannot resolve to extend or waive any requirements relating to Directors.

Further Measures, Hurdles and Sale Restrictions

Staff and Directors may be subject to individualised measures and hurdles associated with any shares issued to them under to the Loan Funded Share Plan. To the extent Shares vest, they will be subject to sale restrictions as outlined in the tables below for each separate issue of Loan Funded Shares.

Phase 1: Issue of 5,180,000 shares on 20 June 2018 at \$2.99 per share

TRANCHE A (applies to 50% of the total number of Shares issues)

| Measures and hurdles | Vested Shares can be sold after: |
|---|---|
| (i) EBIT of \$5m for 12 months ending 31 December 2018; and | 30 June 2020 (25% of Vested Shares) |
| (ii) a Share Price Hurdle of \$4.50 by 31 December 2019 | 30 September 2020 (50% of Vested Shares) |
| (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2019) | 31 December 2020 (75% of Vested Shares) |
| | 31 March 2021 (100% of Vested Shares) |

TRANCHE B (applies to 50% of the total number of Shares issues)

| Measures and hurdles | Vested Shares can be sold after: |
|---|---|
| (i) EBIT of \$15m for 12 months ending 31 December 2019; and | 30 June 2022 (25% of Vested Shares) |
| (ii) a Share Price Hurdle of \$7.50 by 31 December 2021 | 30 September 2022 (50% of Vested Shares) |
| (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021) * | 31 December 2022 (75% of Vested Shares) |
| | 31 March 2023 (100% of Vested Shares) |

* This price hurdle was extended by three years by the Directors on 16 November 2021 for executives and staff, only, and not for directors.

Remuneration report (continued)

Phase 2: Issue of shares during the year ended 31 December 2020, including:

On 19 May 2020, the issue of 2,270,000 ordinary restricted shares to employees at an issue price of \$4.75.

On 29 May 2020, the issue of 2,500,000 ordinary restricted shares to directors at an issue price of \$4.92.

On 10 August 2020, the issue of 860,000 ordinary restricted shares to employees at an issue price of \$5.62.

On 14 October 2020, the issue of 150,000 ordinary restricted shares to employees at an issue price of \$5.47.

TRANCHE A (applies to 50% of the total number of Shares issued)

| Measures and hurdles | Vesting period | Vested Shares can be sold after: |
|---|--|---|
| A share Price Hurdle of \$9.50 by 31 December 2021 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021)* | The period of two calendar years ending 31 December 2021 | 30 June 2022 (25% of Vested Shares) |
| | | 30 September 2022 (50% of Vested Shares) |
| | | 31 December 2022 (75% of Vested Shares) |
| | | 31 March 2023 (100% of Vested Shares) |

TRANCHE B (applies to 50% of the total number of Shares issued)

| Measures and hurdles | Vesting period | Vested Shares can be sold after: |
|--|---|---|
| A Share Price Hurdle of \$11.50 by 31 December 2022 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2022)* | The period of four calendar years ending 31 December 2023 | 30 June 2024 (25% of Vested Shares) |
| | | 30 September 2024 (50% of Vested Shares) |
| | | 31 December 2024 (75% of Vested Shares) |
| | | 31 March 2025 (100% of Vested Shares) |

* This price hurdle was extended by three years by the Directors on 16 November 2021 for executives and staff, only, and not for directors.

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, Directors will forfeit their unvested Shares.

Under Phase 2 directors have also imposed additional vesting conditions for Senior Employees under the terms of the LFSP which specifically relate to the performance of their business sectors within the Company. These conditions are outlined in Note 22 are in addition to the above vesting conditions for Directors.

Remuneration report (continued)**Phase 3: Issue of shares on 15 March 2021**

On 15 March 2021, the issue of 1,185,000 ordinary shares to staff at a price of \$5.27 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

TRANCHE A (applies to 50% of the total number of Shares issued)

| Measures and hurdles | Vesting period | Vested Shares can be sold after: |
|---|--|---|
| A share Price Hurdle of \$9.50 by 30 June 2023 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2023)* | The period of two calendar years ending 30 June 2023 | 30 June 2023 (25% of Vested Shares) |
| | | 30 September 2023 (50% of Vested Shares) |
| | | 31 December 2023 (75% of Vested Shares) |
| | | 31 March 2024 (100% of Vested Shares) |

TRANCHE B (applies to 50% of the total number of Shares issued)

| Measures and hurdles | Vesting period | Vested Shares can be sold after: |
|--|---|---|
| A Share Price Hurdle of \$11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025)* | The period of four calendar years ending 30 June 2025 | 30 June 2025 (25% of Vested Shares) |
| | | 30 September 2025 (50% of Vested Shares) |
| | | 31 December 2025 (75% of Vested Shares) |
| | | 31 March 2026 (100% of Vested Shares) |

*This price hurdle was extended by three years by the Directors on 16 November 2021 for executives and staff.

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, Directors will forfeit their unvested Shares.

Directors have also imposed vesting conditions for Senior Employees under the terms of the LFSP which specifically relate to the performance of their business sectors within EOS. These conditions are outlined in Note 22 are in addition to the above vesting conditions for Directors.

Phase 4: Issue of shares on 31 May 2021

On 31 May 2021 the issue of 150,000 ordinary shares to a director as approved by shareholders at a price of \$4.06 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

TRANCHE A (applies to 50% of the total number of Shares issued)

| Measures and hurdles | Vesting period | Vested Shares can be sold after: |
|--|--|---|
| A share Price Hurdle of \$9.50 by 30 June 2023 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2023) | The period of two calendar years ending 30 June 2023 | 30 June 2023 (25% of Vested Shares) |
| | | 30 September 2023 (50% of Vested Shares) |
| | | 31 December 2023 (75% of Vested Shares) |
| | | 31 March 2024 (100% of Vested Shares) |

TRANCHE B (applies to 50% of the total number of Shares issued)

| Measures and hurdles | Vesting period | Vested Shares can be sold after: |
|---|---|---|
| A Share Price Hurdle of \$11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025) | The period of four calendar years ending 30 June 2025 | 30 June 2025 (25% of Vested Shares) |
| | | 30 September 2025 (50% of Vested Shares) |
| | | 31 December 2025 (75% of Vested Shares) |
| | | 31 March 2026 (100% of Vested Shares) |

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

| | Balance at 1/1/21 | Granted as remuneration | Sales of shares | Purchases of shares | Balance at 31/12/21 |
|-------------------------------|----------------------|----------------------------|-----------------|------------------------|------------------------|
| | No. | No. | No. | No. | No. |
| Lt Gen Peter Leahy AC | 50,077 | - | - | 10,000 | 60,077 |
| Dr Ben Greene | 3,987,139 | - | - | - | 3,987,139 |
| Air Marshal Geoffrey Brown AO | 13,773 | - | - | 5,562 | 19,335 |
| The Hon Kate Lundy | 5,394 | - | - | 1,300 | 6,694 |
| Mr David Black | - | - | - | 10,880 | 10,880 |
| Ms Deena Shiff | - | - | - | - | - |
| Mr Fred Bart* | 5,324,010 | - | - | - | 5,324,010 |
| Mr Ian Dennis* | 41,843 | - | - | - | 41,843 |
| Dr Craig Smith* | 100,772 | - | - | - | 100,772 |
| Mr Scott Lamond* | 14,110 | - | - | - | 14,110 |
| Mr Grant Sanderson | - | - | - | - | - |
| Mr Peter Short | 937 | - | - | - | 937 |
| Mr Neil Carter* | 2,700 | - | - | - | 2,700 |
| Mr Glen Tindall | - | - | - | - | - |
| Mr Michael Lock | - | - | - | 24,000 | 24,000 |

* These persons were not members of the key management personnel of the consolidated entity at 31 December 2021.

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

| | Balance at 1/1/21 | Granted as remuneration | Sales of shares | Purchases of shares | Lapsed at 31/12/21 | Balance at 31/12/21 |
|-------------------------------|----------------------|----------------------------|-----------------|------------------------|-----------------------|------------------------|
| | No. | No. | No. | No. | No. [^] | No. [^] |
| Mr Fred Bart* | 300,000 | - | - | - | (50,000) | 250,000 |
| Dr Ben Greene | 4,000,000 | - | - | - | (1,000,000) | 3,000,000 |
| Mr Ian Dennis* | 250,000 | - | - | - | (50,000) | 200,000 |
| Lt Gen Peter Leahy AC | 300,000 | - | - | - | (50,000) | 250,000 |
| Air Marshal Geoffrey Brown AO | 300,000 | - | - | - | (50,000) | 250,000 |
| The Hon Kate Lundy | 300,000 | - | - | - | (50,000) | 250,000 |
| Mr David Black | - | 150,000 | - | - | - | 150,000 |
| Ms Deena Shiff | - | - | - | - | - | - |
| Dr Craig Smith | 330,000 | - | - | - | (40,000) | 290,000 |
| Mr Michael Lock | - | 165,000 | - | - | - | 165,000 |
| Mr Grant Sanderson | 410,000 | 90,000 | - | - | (80,000) | 420,000 |
| Mr Peter Short | 410,000 | 90,000 | - | - | (80,000) | 420,000 |
| Mr Neil Carter* | 500,000 | - | - | - | - | 500,000 |
| Mr Glen Tindall | 330,000 | - | - | - | - | 330,000 |

[^] Refer to table on page 21 which details restricted shares to be forfeited upon failure to meet 31 December 2021 share-price hurdle

* These persons were not members of the key management personnel of the consolidated entity at 31 December 2021.

Elements of remuneration related to performance

There are service conditions and performance conditions both market and non-market conditions attached to the restricted fully paid ordinary shares issued under the Loan Funded Share Plan.

The overall performance of the Company as measured by the share price will determine whether the shares are exercised and whether the director or executive receives any benefit from these shares. The time service condition has been chosen by the Board as an appropriate condition as it helps in the retention and motivation of staff.

The ordinary restricted shares were issued to directors, senior executives and senior staff under the LFSP. These ordinary restricted shares are subject to performance and vesting conditions.

Other transactions with key management personnel

During the year, the Company paid a total of \$105,000 (2020: \$140,000) 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 paid \$29,166 (2020: \$70,000) 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 \$70,000 (2020: \$70,000) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors' fees and superannuation for Geoff Brown.

During the year, the Company paid \$17,500 (2020: \$nil) to Technology Innovation Partners Pty Ltd, a company associated with Ms Kate Lundy in respect of directors' fees and superannuation for Kate Lundy.

During the period Mr Dennis was KMP, the Company paid \$90,000 (2020: \$216,000) 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 \$18,970 (2020: \$31,775) 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.

Company performance and shareholder returns, last five financial years

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

| | 31 December 2021 | 31 December 2020 | 31 December 2019 | 31 December 2018 | 31 December 2017 |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 212,330,648 | 180,182,366 | 165,385,019 | 87,130,396 | 23,259,794 |
| Net profit/(loss) before tax | (4,610,674) | (29,901,050) | 21,396,585 | 15,081,372 | (9,319,930) |
| Net profit/(loss) after tax | (13,841,610) | (25,207,896) | 17,642,981 | 15,081,372 | (9,319,930) |

| | 31 December 2021 | 31 December 2020 | 31 December 2019 | 31 December 2018 | 31 December 2017 |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Share price at start of year | 5.91 | 7.42 | 2.45 | 2.45 | 1.73 |
| Share price at end of year | 2.34 | 5.91 | 7.42 | 2.45 | 2.45 |
| Dividends paid | - | - | - | - | - |

Audit and Risk Committee

The current members of the Committee are Mr David Black (Chairman), Air Marshal Geoffrey Brown AO, the Hon Kate Lundy and Ms Deena Shiff.

The Audit and Risk Committee have reviewed the consolidated entity's risk management profile during the year to satisfy themselves that it continues to be sound and that the consolidated entity is operating with due regard to the risk appetite set by the Board. The Chief Operating Officer prepares a risk profile for each monthly Board Meeting including a Board Residual Risk Heat Map to ensure continuous monitoring of risk.

Nominations and Remuneration Committee

The current members of the Committee are Air Marshal Geoffrey Brown AO (Chairman), Mr David Black and the Hon Kate Lundy.

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 62 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



Ben Greene
Director

Dated at Canberra this 31st day of March 2022

31 March 2022

The Board of Directors
Electro Optic Systems Holdings Limited
18 Wormald Street
Symonston ACT 2609

Dear Board Members,


Auditor's Independence Declaration to 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 report of Electro Optic Systems Holdings Limited for the year ended 31 December 2021, 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 faithfully


DELOITTE TOUCHE TOHMATSU


Chris Biermann
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Electro Optic Systems Holdings Limited (the "Company") and its subsidiaries (the "Consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Consolidated Entity had a loss before tax of \$4,610,674 and a net decrease in cash of \$6,672,844 during the year ended 31 December 2021.

As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Our procedures in relation to going concern included, but were not limited to:

- Challenging the underlying assumptions reflected in management’s cash flow forecasts, including the timing of expected cash flows;
- Assessing the historical accuracy of the forecasts prepared by management;
- Inquiring with management and the board as to knowledge of events and conditions that may impact the assessment on the Consolidated entity’s ability to pay its debts as and when they fall due; and
- Assessing the adequacy of the disclosures in Note 1(c) to the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|--|
| <p>Revenue recognition for significant contracts</p> <p>Electro Optic Systems Holdings (EOSH) has five significant agreements with customers (key contracts) that account for approximately 81% of total consolidated revenue. These key contracts are complex, span over several years and the accounting implications thereof are of significance to the performance of the entity.</p> <p>There are judgements associated with interpreting the revenue recognised for contracts entered into by the entity against the requirements of AASB 15 <i>Revenue from Contracts with Customers</i>. This results in a significant level of management judgement and estimation in relation to:</p> <ul style="list-style-type: none"> • Interpreting and accounting for complex contractual terms, including multiple performance obligations, clauses with regards to cancellations, penalties for late delivery and warranties (amongst others); and • Accounting judgements and treatments in relation to the application of AASB 15 including the assessment of performance obligations, allocation of revenue, variable consideration and consideration of revenue recognition as being at a point in time or over time. | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Enquiring and performing a walkthrough of the process for recording revenue and assessing judgements applied to the key contracts to identify and test relevant controls; • Reviewing key contracts and assessing revenue recognition against the requirements of the relevant accounting standard; • Testing on a sample basis, revenue transactions recorded in relation to the key contracts and assessing whether these have been appropriately accounted for with regard to the accounting policy adopted, including agreeing these to underlying records, including shipment and milestone documentation; and • Assessing the application of any adjustments in relation to variable elements of revenue recognition, including the application of the late delivery clauses. <p>We also assessed the appropriateness of the disclosures in Notes 1(f) and 2(a) to the financial statements.</p> |
| <p>Recoverability of goodwill and intangible assets</p> <p>AASB 136 <i>Impairment of Assets</i> requires goodwill acquired in a business combination to be tested annually for impairment. The standard also applies to assessing impairment of intangible assets.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Enquiring and performing a walkthrough of the process to compute management’s cash flow forecasts to identify and test relevant controls; |

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|---|
| <p>The determination of the recoverable amount requires management judgement in determining and applying:</p> <ul style="list-style-type: none"> • Cash flow projections; • Expected future growth in the product market; and • Discount rates. | <ul style="list-style-type: none"> • Challenging management’ assessment on the underlying inputs and assumptions applied when making key judgements and estimates; • Assessing the status of any new/ongoing/potential contracts based on discussions with management and external research (where available); • Performing an independent sensitivity analysis to determine whether reasonably foreseeable changes to the key inputs and assumptions would trigger impairment; • Engaging our internal valuation specialists to assist in the evaluation of management’s assumptions applied in their assessment in calculating the recoverable amount of the identified CGUs, including future cash flows, growth rates, discount rates and terminal value calculations; and • Comparing the recoverable amount of the CGUs to the carrying value to determine whether an impairment is required. <p>We also assessed the appropriateness of the disclosures in Notes 12 and 13 to the financial statements.</p> |
| <p>Capital work in progress</p> <p>EOSH as part of its business generation activity, incurs expenditure on construction and customisation of assets ahead of revenue being generated. These include specific projects and associated assets in the defence and space segments. AASB 116 <i>Property Plant and Equipment</i> requires that an item of Property Plant and Equipment only be recognised if it is probable that future economic benefits associated with the item will flow to the entity.</p> <p>Management judgement is required in:</p> <ul style="list-style-type: none"> • The determination of whether the expenditure meets the capitalisation criteria under AASB 116; and • The future economic benefits expected to be generated. | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Enquiring and performing a walkthrough of the process to assess the eligibility of costs that can be capitalised to identify and test relevant controls; • Inspecting documentation of costs capitalised in the period and assessing if they have been correctly capitalised; and • Obtaining and assessing management’s assessment of the recoverability of the capital work in progress with reference to the expected future economic benefits from the assets. <p>We also assessed the appropriateness of the disclosures in Note 14 to the financial statements.</p> |
| <p>Contract Asset recoverability</p> <p>As a result of the timing of revenue recognition for a contract with a customer in a foreign jurisdiction, EOSH have recognised a contract asset of \$117,056,589 (refer Note 1(x)) in the statement of financial position. The contract asset represents amounts reflected in revenue on a milestone basis but not billed to the customer.</p> <p>AASB 9 <i>Financial Instruments</i> requires that contract</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Enquiring and performing a walkthrough of the process to assess the recoverability of the contract asset to identify and test relevant controls; • Obtaining and assessing management’s assessment of the factors impacting the ECL in relation to the contract asset and any required ECL charges; |

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| <p>assets are subject to an assessment in relation to the expected credit loss (ECL). Impairment is required to be recognised where an ECL exists.</p> <p>The determination of the ECL requires management judgement in considering management’s ability to realise the contract asset.</p> | <ul style="list-style-type: none"> • Recalculating contract assets recorded by management; and • Enquiring, obtaining and evaluating documentation in relation to the performance against the contract including any variations of the contract. <p>We also assessed the appropriateness of the disclosures in Notes 1 (x) and 6 to the financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Corporate Directory, Review of Operations, Director’s Report and ASX Additional Information, which we obtained prior to the date of this auditor’s report, and also includes information which has been included in the Consolidated entity’s annual report (but does not include the financial report and our auditor’s report thereon) which was made available to us after that date.

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

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

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

Auditor’s Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Consolidated entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

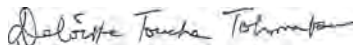
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 49 to 60 of the Directors' Report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Electro Optic Systems Holdings Limited, for the year ended 31 December 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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


DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner
Chartered Accountants
Canberra, 31 March 2022

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 are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements;
- (c) 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; and
- (d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of compliance affected by *ASIC Corporations (Wholly Owned Companies) Instrument 2016/785*. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which *ASIC Corporations (Wholly Owned Companies) Instrument 2016/785* applies, as detailed in Note 27 to the financial statements will, as a consolidated entity, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

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



Ben Greene
Director

Dated at Canberra this 31st day of March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2021

| | Note | 31 December 2021 \$ | 31 December 2020 \$ |
|--|------|---------------------------|---------------------------|
| Revenue | 2(a) | 212,330,648 | 180,182,366 |
| Other income | 2(b) | 975,161 | 10,085,114 |
| Changes in inventories of work in progress and finished goods | | 5,662,754 | (38,292,672) |
| Raw materials and consumables used | | (117,221,392) | (77,694,633) |
| Employee benefits expense | 2(c) | (69,202,553) | (53,211,757) |
| Administration expenses | | (25,950,048) | (19,774,924) |
| Amortisation of intangibles | 2(c) | (2,823,476) | (2,346,628) |
| Interest expense | 2(c) | (2,913,090) | (1,436,475) |
| Depreciation and amortisation of property, plant and equipment | 2(c) | (3,954,048) | (3,045,714) |
| Impairment of capital work in progress | 2(c) | (1,789,867) | - |
| Depreciation of right-of-use-assets | 2(c) | (4,984,755) | (4,165,264) |
| Loss on disposal of property, plant and equipment | | (8,917) | (299,900) |
| Foreign exchange gains / (losses) | 2(c) | 9,797,241 | (15,682,452) |
| Occupancy costs | | (1,962,137) | (1,709,006) |
| Other expenses | | (2,566,195) | (2,509,105) |
| (Loss) before income tax | | (4,610,674) | (29,901,050) |
| Income tax (expense) / benefit | 4 | (9,230,936) | 4,693,154 |
| (Loss) for the year | | (13,841,610) | (25,207,896) |
| Attributable to: | | | |
| Owners of the Company | 24 | (13,004,520) | (24,402,682) |
| Non-controlling interests | | (837,090) | (805,214) |
| | | (13,841,610) | (25,207,896) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Exchange differences arising on translation of foreign operations | | 1,344,029 | (2,106,188) |
| Total comprehensive (Loss) for the year | | (12,497,581) | (27,314,084) |
| Attributable to: | | | |
| Owners of the Company | | (11,660,491) | (26,508,870) |
| Non-controlling interests | | (837,090) | (805,214) |
| | | (12,497,581) | (27,314,084) |
| (Loss) per share | | | |
| Basic (cents per share) | 3 | (9.97) | (19.52) |
| Diluted (cents per share) | 3 | (9.97) | (19.52) |

Notes to the financial statements are included on pages 75 to 142.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

| | Note | Consolidated | |
|--|------|---------------------------|---------------------------|
| | | 31 December 2021 \$ | 31 December 2020 \$ |
| Current Assets | | | |
| Cash and cash equivalents | 25 | 59,260,655 | 65,933,499 |
| Trade and other receivables | 5 | 23,533,145 | 35,810,801 |
| Tax receivable | | 195,928 | - |
| Contract asset | 6 | 106,843,848 | 124,532,902 |
| Inventories | 7 | 74,579,376 | 67,308,339 |
| Prepayments | 8 | 20,398,751 | 13,135,088 |
| Total Current Assets | | 284,811,703 | 306,720,629 |
| Non-Current Assets | | | |
| Trade and other receivables | 5 | - | 2,063,782 |
| Contract asset | 6 | 21,452,681 | 13,364,148 |
| Other assets | 8 | - | 956,073 |
| Deferred tax asset | 4 | 4,506,193 | 11,342,664 |
| Security deposits | 33 | 28,140,759 | 16,671,414 |
| Loan to associate | 10 | 2,513,380 | 2,391,940 |
| Right of use assets | 11 | 28,601,271 | 20,142,641 |
| Goodwill | 12 | 14,878,316 | 14,878,316 |
| Intangible assets | 13 | 17,109,179 | 19,723,572 |
| Property, plant and equipment | 14 | 56,078,490 | 29,125,518 |
| Total Non-Current Assets | | 173,280,269 | 130,660,068 |
| Total Assets | | 458,091,972 | 437,380,697 |
| Current Liabilities | | | |
| Trade and other payables | 15 | 43,036,517 | 52,235,653 |
| Current tax payable | | - | 36,736 |
| Secured borrowings | 16 | 34,448,384 | - |
| Lease liabilities | 17 | 5,159,847 | 3,442,031 |
| Provisions | 18 | 14,178,464 | 15,099,074 |
| Total Current Liabilities | | 96,823,212 | 70,813,494 |
| Non-Current Liabilities | | | |
| Lease liabilities | 17 | 24,864,019 | 17,665,942 |
| Provisions | 18 | 7,248,891 | 9,306,752 |
| Total Non-Current Liabilities | | 32,112,910 | 26,972,694 |
| Total Liabilities | | 128,936,122 | 97,786,188 |
| Net Assets | | 329,155,850 | 339,594,509 |
| Equity | | | |
| Issued capital | 20 | 413,727,547 | 413,479,003 |
| Reserves | 23 | 11,567,049 | 8,412,642 |
| Accumulated losses | 24 | (93,958,006) | (80,953,486) |
| Equity attributable to owners of the Company | | 331,336,590 | 340,938,159 |
| Non-controlling interests | | (2,180,740) | (1,343,650) |
| Total Equity | | 329,155,850 | 339,594,509 |

Notes to the financial statements are included on pages 75 to 142.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| 2021 | Accumulated losses \$ | Issued capital \$ | Foreign currency translation reserve \$ | Employee equity settled benefits reserve \$ | Attributable to owners of the parent \$ | Non-controlling interests \$ | Total Equity \$ |
|---|--------------------------|----------------------|--|--|--|---------------------------------|--------------------|
| Balance at 1 January 2021 | (80,953,486) | 413,479,003 | (3,167,394) | 11,580,036 | 340,938,159 | (1,343,650) | 339,594,509 |
| (Loss) for the year | (13,004,520) | - | - | - | (13,004,520) | (837,090) | (13,841,610) |
| Exchange differences arising on translation of foreign operations | - | - | 1,344,029 | - | 1,344,029 | - | 1,344,029 |
| Total comprehensive (loss)/ profit for the year | (13,004,520) | - | 1,344,029 | - | (11,660,491) | (837,090) | (12,497,581) |
| Repayment of loans in respect of 83,125 Loan Funded Share Plan shares at \$2.99 per share | - | 248,544 | - | - | 248,544 | - | 248,544 |
| Recognition of share-based payments | - | - | - | 1,810,378 | 1,810,378 | - | 1,810,378 |
| Balance at 31 December 2021 | (93,958,006) | 413,727,547 | (1,823,365) | 13,390,414 | 331,336,590 | (2,180,740) | 329,155,850 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| 2020 | Accumulated losses \$ | Issued capital \$ | Foreign currency translation reserve \$ | Employee equity settled benefits reserve \$ | Attributable to owners of the parent \$ | Non-controlling interests \$ | Total Equity \$ |
|--|--------------------------|----------------------|--|--|--|---------------------------------|--------------------|
| Balance at 1 January 2020 | (56,550,804) | 274,311,590 | (1,061,206) | 10,373,224 | 227,072,804 | (538,436) | 226,534,368 |
| (Loss) for the year | (24,402,682) | - | - | - | (24,402,682) | (805,214) | (25,207,896) |
| Exchange differences arising on translation of foreign operations | - | - | (2,106,188) | - | (2,106,188) | - | (2,106,188) |
| Total comprehensive (loss) for the year | (24,402,682) | - | (2,106,188) | - | (26,508,870) | (805,214) | (27,314,084) |
| Issue of 28,269,553 new shares at \$4.75 under the institutional placement | - | 127,775,501 | - | - | 127,775,501 | - | 127,775,501 |
| Issue of 2,451,463 new shares at \$4.40 under the Share Purchase Plan | - | 10,786,437 | - | - | 10,786,437 | - | 10,786,437 |
| Repayment of loans in respect of 202,500 Loan Funded Share Plan shares at \$2.99 per share | - | 605,475 | - | - | 605,475 | - | 605,475 |
| Recognition of share-based payments | - | - | - | 1,206,812 | 1,206,812 | - | 1,206,812 |
| Balance at 31 December 2020 | (80,953,486) | 413,479,003 | (3,167,394) | 11,580,036 | 340,938,159 | (1,343,650) | 339,594,509 |

Notes to the financial statements are included on pages 75 to 142.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Note | 31 December 2021 \$ | 31 December 2020 \$ |
|---|-------|---------------------------|---------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers and other income | | 233,934,138 | 107,617,093 |
| Payments to suppliers and employees | | (225,250,939) | (204,442,935) |
| Income tax paid | | (2,627,129) | (11,968,689) |
| Interest received | | 30,276 | 671,590 |
| Interest and other costs of finance paid | | (5,864,892) | (1,036,376) |
| Net cash inflows/(outflows) from operating activities | 25(b) | 221,454 | (109,159,317) |
| Cash flows from investing activities | | | |
| Payment for property, plant and equipment | | (29,006,573) | (24,554,327) |
| Payment for intangible assets | | - | (5,166,750) |
| Security deposit for performance bond | | (8,701,244) | (7,258,061) |
| Net cash (outflows) from investing activities | | (37,707,817) | (36,979,138) |
| Cash flows from financing activities | | | |
| Proceeds from issue of new shares | | - | 138,561,938 |
| Repayment of loans in respect of loan funded share plan shares | | 248,544 | 605,475 |
| Repayment of lease liabilities | | (3,852,347) | (3,238,674) |
| Proceeds from borrowings | | 35,000,000 | - |
| Transaction costs related to borrowings | | (811,739) | - |
| Net cash inflows from financing activities | | 30,584,458 | 135,928,739 |
| Net (decrease) in cash and cash equivalents | | (6,901,905) | (10,209,716) |
| Cash and cash equivalents at the beginning of the financial year | | 65,933,499 | 77,881,766 |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies | | 229,061 | (1,738,551) |
| Cash and cash equivalents at the end of the financial year | 25(a) | 59,260,655 | 65,933,499 |

Notes to the financial statements are included on pages 75 to 142.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Summary of accounting policies

a. 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 consolidated entity. 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 ("AASB"). Compliance with AASB 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 31 March 2022.

b. Basis of preparation

The financial report has been prepared on the basis of historical cost unless otherwise stated. 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. The functional currency of the consolidated entity is Australian dollars. Certain comparative amounts have been restated to apply with the method of computation in the current year.

c. 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 had a loss before tax of \$4,610,674 and a net decrease in cash for the year of \$6,672,844 (net decrease of \$6,901,905 before adjusting for foreign exchange fluctuations of \$229,061).

On 17 March 2022 the Company announced that it had engaged Greenhill & Co. as financial adviser to assist in undertaking a strategic review, including ensuring all feasible funding options are explored and assessed in the context of the broader range of strategic options for the business.

As at the date of this report no outcome from the strategic review has been determined and hence the consolidated entity has prepared cash flow forecasts for the next 12 months based upon the 'as-is' business, including the following key assumptions:

- Conversion of approximately \$33 million from the contract asset to cash by no later than early April 2022, and monthly receipts from April onwards;
- Obtaining a 6 month debt facility of approximately \$15 million in May 2022 to fund short term working capital requirements;
- Obtaining by June 2022 equity funding for operating and capital expenditure in relation to SpaceLink; and
- Rolling over the \$35 million working capital facility which was entered into in August 2021 or refinancing it before its maturity on 5 September 2022.

Depending on the outcome of the strategic review, and the path chosen by the directors, these assumptions may change.

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

- ratification of the contract variations and the continued realisation of the contract asset;
- key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- the continued ability of the consolidated entity to deliver contracts on time, to the required specifications and within budgeted costs;
- conversion of key opportunities within the Defence sector pipeline; and
- the ability of the consolidated entity to secure continued access to debt and/or equity funding which includes extending the expiry date or refinancing the current debt facility, obtaining additional short term debt funding, and raising additional equity funding.

1. Summary of accounting policies (cont)

If the consolidated entity is unable to achieve successful outcomes in relation to the above matters, material uncertainty would exist that may cast significant doubt as to the ability of the consolidated entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its 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 consolidated entity not continue as a going concern.

d. Significant events and transactions - impact of COVID-19

Since the outbreak of the pandemic, the consolidated entity has been affected in multiple ways through increasing supply chain costs, product delivery delays, delays in contract negotiations and execution, access to customers and reduced production. This has had a corresponding impact on operating performance, including increased costs and delays in the award of new work both domestically and overseas.

The COVID-19 control measures introduced by the Federal Government, States and Territories, which included border closures, lock downs and stay at home orders, continued to impact the consolidated entity's ability to carry out key demonstrations and other activities throughout 2021.

Significant judgement and estimates

While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement by the directors in preparing the financial report in areas such as revenue recognition, impairment assessment on goodwill and intangibles as well as the collectability of contract asset (see Note 1(x)).

The directors have reviewed the collectability of the contract asset as at 31 December 2021 of \$128,296,529. The directors have concluded that no provisions or adjustments to the contract asset should be recognised given the nature of the counterparties involved and the payments received during the year. Please refer to the discussion of critical accounting judgements at Note 1(x).

The directors are of the view that the estimates used in preparing this financial report are reasonable. Estimates and outcomes that have been applied in the measurement of the consolidated entity's contract asset may change in the future and any 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.

e. Adoption of new and revised standards

New and amended IFRS Standards that are effective for the current year

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

- AASB 2020-8 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2
- AASB 2021-3 Amendments to Australian Accounting Standards - Covid-19-Related Rent Concessions beyond 30 June 2021

These standards do not materially affect the consolidated entity's accounting policies or any of the amounts recognised in the financial statements.

1. Summary of accounting policies (cont)

New and revised AASB Standards in issue but not yet effective

At the date of authorisation of the financial statements, the consolidated entity has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

| Standard/amendment | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| AASB 2014-10 Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections | 1 January 2022 (Editorial corrections in AASB 2017-5 applied from 1 January 2018) | 31 December 2022 |
| AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments | 1 January 2022 | 31 December 2022 |
| AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current - Deferral of Effective Date | 1 January 2023 | 31 December 2023 |
| 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates | 1 January 2023 | 31 December 2023 |
| 2021-5 Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 | 31 December 2023 |

f. Revenue recognition

The consolidated entity recognises revenue from the following major sources:

- engineering design, manufacture and supply of remote weapons stations and related installation, integration and support services;
- design, manufacture, delivery and operation of sensors for space domain awareness and space control; and
- design, development and provision of satellite communications products, systems and services.

Customer contracts across all segments, including both products and services, are highly customised and are configured specifically for each client's operational and commercial requirements.

1. Summary of accounting policies (cont)

Transaction price

Revenue is measured based on the consideration to which the consolidated entity expects to be entitled in a contract with a customer. This transaction price is updated for changes in scope or price (or both) that are approved by all parties to the contract, either in writing or by oral agreement.

Revenue recognition is constrained for negative variable consideration in relation to delays in formal customer acceptance or potential late delivery penalties/liquidated damages. Once the constraint is removed, a cumulative catch-up adjustment is made to recognise the related revenue.

There is no significant financing component in the consolidated entity's contracts with customers as the period between provision of goods and services and the receipt of cash from customers is usually less than a year. Payments terms which extend beyond a year are for reasons other than the provision of a significant financing component.

Timing of revenue recognition

The timing of revenue recognition (i.e., over time or at a point in time) is determined by the nature and specifications of the contracts that the consolidated entity enters into with its customers.

Revenue recognition over time

Goods manufactured and services delivered under the consolidated entity's major contracts do not have an alternative use for EOS and EOS has an enforceable right to payment for performance completed to date, therefore, the consolidated entity recognises revenue for its major contracts over time.

- Under certain contracts, control of the goods manufactured and services provided transfers as the Company delivers against the contract. The transaction price is allocated to performance obligations based on standalone selling prices. The output method, based on the delivery of goods or services to customers or the achievement of contract milestones, best depicts progress under these contracts as it represents the best measurement of value to the customer of goods or services to date relative to the remaining goods or services promised under the contract.

- For other contracts the input method offers the best depiction of progress under the contract. For such contracts, the consolidated entity recognises revenue by reference to costs incurred to date relative to total expected contract costs.

Revenue recognition at a point in time

For contracts where revenue at a point in time offers the best depiction of EOS's satisfaction of its performance obligations, the consolidated entity recognises revenue when control transfers to the customer. Control is assessed as transferred to the customer when the consolidated entity has a present right to payment for the asset, typically upon delivery of goods and services to customers.

Under bill and hold arrangements, revenue is recognised once formal acceptance is received from customers.

Interest revenue is recognised using the effective interest rate method.

g. Financial instruments

Financial assets

Classification

The consolidated entity classifies its financial assets in the following measurement categories:

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

The classification depends on the consolidated entity's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

For investments in equity instruments not held for trading, this will depend on whether the consolidated entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The consolidated entity reclassifies debt investments when and only when its business model for managing those assets changes.

1. Summary of accounting policies (cont)

Measurement

At initial recognition, the consolidated entity measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Measurement of trade and other receivables remains at amortised cost consistent with the comparative period.

Debt instruments

Subsequent measurement of debt instruments depends on the consolidated entity's business model for managing the asset and the cash flow characteristics of the asset. The consolidated entity measures its debt instruments using the amortised cost basis. Using this method, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Impairment

The consolidated entity assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, contract assets, loans to associates and lease receivables, the consolidated entity applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial Liabilities

Interest bearing liabilities

All loans and borrowings are initially recognised at fair value less transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

Trade and other payables

Liabilities are recognised for amounts to be paid for goods or services received. Trade payables are settled on terms aligned with the normal commercial terms in the consolidated entity's countries of operation.

h. 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 include restricted cash to the extent it relates to operating activities.

i. 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.

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

j. 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 the reporting date. Non-monetary assets and liabilities 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.

1. Summary of accounting policies (cont)

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.

k. Goods and services tax

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

- 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
- 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.

l. Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the costs for which the grants are intended to compensate are recognised. Where a grant's primary condition is that the consolidated entity should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position, which is subsequently transferred to profit or loss on a systematic basis over the useful lives of the related assets.

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 the grant's becomes receivable.

m. 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 and intangible assets with indefinite useful lives 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. The 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 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 (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Other than goodwill, where an impairment loss subsequently reverses the carrying amount of the asset or CGU 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 or CGU in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

n. 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, using tax rates and tax laws that have been enacted or substantively enacted by the 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).

1. Summary of accounting policies (cont)

Deferred tax

Deferred tax is recognised on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax base.

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.

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 the 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 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 consolidated entity' 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 the head entity in the tax-consolidated group).

There are formal tax funding and tax sharing arrangements between the companies comprising the Australian tax-consolidated entity as at 31 December 2021.

o. 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.

The following estimated useful lives are used in the calculation of amortisation on a straight-line basis:

| | |
|--------------------------------------|----------|
| Core technology (not patented) | 10 years |
| Patented technology | 15 years |
| Software | 5 years |
| Customer contracts and relationships | 15 years |
| Licences | 4 years |

1. Summary of accounting policies (cont)

p. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a weighted average cost basis for raw material inventory and standard cost for finished goods and work in process. Net realisable value represents the estimated selling price less all estimated costs of completion, costs to be incurred in marketing, selling and distribution, and provision for obsolescence.

q. Leased assets

The consolidated entity assesses whether a contract is or contains a lease, at inception of a contract. The consolidated entity recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the consolidated entity recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the consolidated entity uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The consolidated entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the change in lease payments is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the consolidated entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the consolidated entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

1. Summary of accounting policies (cont)

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The consolidated entity applies AASB 136 Impairment of Assets (as per Note 1(m)) to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss per that accounting policy.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

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.

All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the consolidated entity's equity therein. The interests of non-controlling shareholders with present ownership interests entitling them to a

proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in non-controlling interests having a deficit balance.

s. Property, plant and equipment

Plant and equipment and leasehold improvements 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 are reviewed at the end of each annual accounting period.

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 |
| Office equipment | 5 to 15 years |
| Furniture, fixture and fittings | 5 to 15 years |
| Motor vehicles | 3 to 5 years |
| Computer equipment | 3 to 4 years |
| Test equipment | 3 to 4 years |

1. Summary of accounting policies (cont)

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. Sales-related warranties cannot be purchased separately, and they serve as an assurance that the products sold comply with agreed-upon specifications.

Contract losses

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the consolidated entity 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.

Make good provisions and decommissioning costs

A make good provision, including decommissioning costs, is recognised when there is a present obligation which it is probable that an outflow of economic benefits will be required to settle and the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling and removing leasehold improvement, decommissioning plant and equipment, or otherwise restoring facilities and premises as required in accordance with the underlying agreements.

u. 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 the Black Scholes 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.

Ordinary shares issued under the Loan Funded Share Plan are accounted for as an in-substance option and initially measured using a Monte Carlo simulation model. Directors reassess the non-market inputs and adjust throughout the life for likely eventuality.

v. Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the consolidated entity as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operations;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The consolidated entity accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Standards applicable to the particular assets, liabilities revenues and expenses.

1. Summary of accounting policies (cont)

When a consolidated entity transacts with a joint operation in which a consolidated entity is a joint operator (such as a sale or contribution of assets), the consolidated entity is considered to be conducting the transaction with the other parties to the joint operation, and gains or losses resulting from the transactions are recognised in the consolidated entity's consolidated financial statements only to the extent of other parties' interest in the joint operation.

When a consolidated entity transacts with a joint operation in which a consolidated entity is a joint operator (such as a purchase of assets), the consolidated entity does not recognise its share of the gains and losses until it resells those assets to a third party.

w. Goodwill

Goodwill is initially recognised and measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquirer, and the fair value of the acquirer's previously held equity interest (if any) over the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the consolidated entity or group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

x. Critical accounting judgements

In the application of the consolidated entity's accounting policies, management is required to make judgements, 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 circumstances, the results of which form the basis of making these judgements. 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.

Key judgement and sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Recoverable amount of goodwill

The Directors made a critical judgement in relation to the recoverable amount of goodwill in Note 12 and the allocation of goodwill to the three cash generating units (CGU). Judgement is made regarding the pipeline of sales opportunities, discount rate applied to the estimated free cash flows, and long-term growth rates applied in estimating the future value of each CGU.

Capitalisation and recoverable amount of capital work in progress

A critical judgement exists in the decision to capitalise work in progress (see Note 14). The consolidated entity capitalises work in progress when the Directors believe that the expenditure in question creates or enhances an asset from which future economic benefits will flow, and that the consolidated entity controls the asset. The capital works in progress asset increased during the 12-month period to 31 December 2021 by additions of \$30,756,873 to a total value of \$44,297,472. The asset is driven by capital works undertaken by SpaceLink and Defence.

A critical judgement also exists in relation to the recoverability of capital work in progress.

The SpaceLink capital works in progress consists of resources expended in developing the ground and space assets that will underpin the SpaceLink business. The introduction of a new technology to the SpaceLink constellation that will mitigate the cost and schedule of initial entry into service also resulted in an impairment of \$1,789,867 to some of the previously capitalised costs. The Directors have assessed the recoverable amount of the SpaceLink capital works in progress asset on 31 December 2021 and concluded that no further impairments should be recognised. This judgement is based on the Directors' understanding of the development efforts achieved by SpaceLink to date and feedback received from investors, industry partners and probable customers.

1. Summary of accounting policies (cont)

The Company also continued to invest through EOSDS in the ongoing engineering development of counter drone defence, predominantly in the areas of directed energy (DE) and counter uninhabited aerial strike (CUAS) technologies. The Directors have assessed the recoverable amount of the EOSDS capital works in progress asset on 31 December 2021 and concluded that no impairments should be recognised. This judgement is based on the engagements completed during the year and feedback received from industry partners and probable customers.

Actual results may differ from this estimate. Estimates and outcomes that have been applied in the measurement of the consolidated entity's contract asset may change in the future. 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.

Contract asset

A critical judgement exists in relation to the recoverability of the contract assets described in Note 6. Of the total contract assets of \$128,296,529, an amount of \$117,056,589 relates to a contract with a customer in a foreign jurisdiction. As outlined in Note 1(d), as a result of COVID-19 the Company has experienced delays in finalising variations to this contract. These delays, along with the requirement for onsite acceptance of products (which has also been delayed as a result of COVID-19 travel restrictions), have resulted in delays in the conversion of the contract asset into cash and judgement and estimation uncertainty in relation to recoverability.

Timing differences between revenue recognition and invoicing are expected to arise due to differences between the consolidated entity's revenue recognition policies (see Note 1(f)) and the terms of the underlying contracts. The directors have concluded that any estimated credit losses against the contract asset are immaterial. This judgement is based on the nature of the counterparties involved (primarily sovereign entities), the payments received during the year, and continuing communications with clients regarding administration of the underlying contracts.

Deferred tax

The Directors made a critical judgement in relation to recognising the deferred tax balances described in Note 4(b). The directors currently consider it probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised in the Australian tax consolidated entity. No deferred tax assets have been recognised in the foreign subsidiaries.

Warranty provision

The Directors made a critical judgement in relation to the valuation of the provision for warranty costs described in Note 19. The valuation is determined based on the Directors' best estimate of the expenditure required to settle the consolidated entity's liability under its warranty obligations.

During the year the Company reviewed the accumulated data regarding warranty claims on relevant sales to date, in particular from a significant defence contract to a customer in a foreign jurisdiction for which the warranty period was substantially complete. The results of this review were compared to the framework used to estimate warranty provisions, particularly for sales of defence materiel, which in turn indicated that lower rates were justified. Based on this analysis, the Directors have accordingly determined that the Company should adjust the rates used to estimate warranty provisions.

Estimates and outcomes that have been applied in the assessing warranty provisions may change in the future and the consolidated entity will recognise any revisions deemed necessary as a result.

Loan to associate

The directors made a critical judgement in relation to the treatment of the loan to an associate. The directors determined that based on the disclosure in Note 10, treating the advances under the Unsecured Convertible Note deed as a loan to an associate was appropriate based on the facts pertaining to the loan.

1. Summary of accounting policies (cont)

Judgements in determining revenue recognised in the period

The Directors make judgements in terms of the nature and timing of revenue recognised under contracts between the consolidated entity and its clients, in accordance with the provisions of AASB15. A summary of the accounting policies adopted by the consolidated entity in regard to revenue recognition is set out in Note 1(f).

The Directors made a critical judgement in relation to the revenue recognised under a major production contract with a foreign customer. Under the contract, late deliveries against the contracted schedule may result in the application of late delivery penalties. Given the delays and other impacts experienced from the COVID pandemic (see Note 1(d)) there was a possibility that late delivery penalties could possibly be applied and so the consolidated entity had therefore constrained revenue recognised under the contract before and during the year, some of which were applied and recognised in the first half of the year. In September 2021 the client formally confirmed that any remaining penalties that may otherwise have accrued against deliveries through to 31 December 2021 would be waived. Given the Company's positive operating performance under the contract, good relationships with the client, and track record of payments received during the year, the Directors determined that all variable consideration withheld against this contract should be released, resulting in a cumulative catch-up of the previously withheld variable consideration (see Note 6).

y. Derivative liabilities

Derivative liabilities are initially recognised at fair value on issue. After initial recognition, they are subsequently measured at fair value through profit or loss.

z. Investments in associates

An associate is an entity over which the consolidated entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial operating policy decisions of the investee but is not control or joint control over these policies.

The consolidated entity measures the interest in an associate at fair value through profit and loss from the date which significant influence is obtained.

The consolidated entity applies AASB 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee.

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 2. Loss from ordinary activities | | |
| (a) Revenue | | |
| Revenue from operations consisted of the following items: | | |
| Revenue from the sale of goods | 162,185,340 | 157,671,132 |
| Revenue from the rendering of services | 50,145,308 | 22,511,234 |
| Total revenue | 212,330,648 | 180,182,366 |

Disaggregation of revenue

The consolidated entity derives its revenue from the transfer of goods and services over time and at a point in time in the following major segments.

Timing of revenue recognition

Over time

| | | |
|--|--------------------|--------------------|
| Defence segment - Sale of goods | 103,058,662 | 120,292,034 |
| Defence segment - Providing services | 38,682,200 | 15,061,354 |
| Space segment - Providing services | 3,382,834 | - |
| Communication segment - Sale of goods | 15,053,426 | 15,125,671 |
| Communication segment - Providing services | 243,941 | 1,094,170 |
| Total Revenue recognised over time | 160,421,063 | 151,573,229 |

Revenue in relation to a contract earned on milestones basis has been adjusted for variable elements. During 2019 and 2020 revenue was constrained in relation to potential late deliveries on a major foreign contract, some of which were applied and recognised in the first half of the year. During the later half of the year the variable revenue was assessed as not being constrained and there was a cumulative positive catch-up adjustment to revenue and the contract asset (refer to Note (6)).

Revenue recognition is discussed at Note 1(f).

At a point in time

| | | |
|--|--------------------|--------------------|
| Communications segment - Sale of goods | 7,132,337 | 2,830,490 |
| Communications segment - Providing services | 865,564 | 480,640 |
| Defence segment - Sale of goods | 36,940,916 | 19,422,937 |
| Defence segment - Providing services | 5,833,698 | 1,570,973 |
| Space segment - Providing services | 1,137,070 | 4,304,097 |
| Total revenue recognised at a point in time | 51,909,585 | 28,609,137 |
| Total revenue | 212,330,648 | 180,182,366 |

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 2. Loss from ordinary activities (cont) | | |
| (b) Other income | | |
| Interest: | | |
| Bank deposits | 30,276 | 557,375 |
| Other | 425,949 | 114,215 |
| Jobkeeper | - | 5,773,350 |
| Grant income | 133,299 | 3,314,081 |
| Other | 385,637 | 326,093 |
| Total other income | 975,161 | 10,085,114 |
| (c) Expenses | | |
| (Loss) before income tax has been arrived at after charging following expenses: | | |
| Employee benefits expense: | | |
| Share based payments (equity settled) | 1,810,378 | 1,206,812 |
| Contributions to defined contribution superannuation plans | 4,749,710 | 3,573,509 |
| Other employee benefits | 62,642,465 | 48,431,436 |
| Total employee benefits expense | 69,202,553 | 53,211,757 |
| Interest expense | | |
| Interest expense on right of use assets | 1,187,502 | 1,036,376 |
| Interest on secured borrowings | 975,465 | - |
| Interest on discounting of the contract asset | 750,123 | 400,099 |
| Total interest expense | 2,913,090 | 1,436,475 |
| Other finance costs | 3,701,925 | 2,844,712 |
| Amortisation of intangibles | 2,823,476 | 2,346,628 |
| Impairment of capital work in progress | 1,789,867 | - |
| Depreciation and amortisation of property, plant and equipment | 3,954,048 | 3,045,714 |
| Depreciation on right of use assets | 4,984,755 | 4,165,264 |
| Foreign exchange gains/(losses) | 9,797,241 | (15,682,452) |

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 3. Earnings per share | | |
| Basic EPS | (9.97 cents) | (19.52 cents) |
| Diluted EPS | (9.97 cents) | (19.52 cents) |
| Basic (Loss)/ Profit per Share | | |
| (Loss) (a) | (13,841,610) | (25,207,896) |
| | 2021 No. | 2020 No. |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share and diluted earnings per share (b), (c) | 138,876,922 | 129,164,714 |

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

(b) The 1,830,000 unlisted options outstanding are not considered dilutive as all the conditions of exercise have not been met at the reporting date and given the consolidated entity made a loss in the year.

(c) The 2,270,000 ordinary shares issued on 19 May 2020 at a price of \$4.75 each, the 2,500,000 ordinary shares issued on 29 May 2020 at \$4.92 each, the 860,000 ordinary shares issued on 10 August 2020 at \$5.62 each, the 150,000 ordinary shares issued on 14 October 2020 at \$5.47 each, the 1,185,000 ordinary shares issued on 15 March 2021 at \$5.27 each and the 150,000 ordinary shares issued on 31 May 2021 at \$4.06 each, under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in substance options for accounting purposes. The options are not considered dilutive given the consolidated entity made a loss in the year.

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 4. Income tax | | |
| Corporation income tax | | |
| Current year expense/(benefit) | 9,230,936 | (4,693,154) |
| (a) The prima facie income tax expense on pre-tax accounting (loss)/profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| (Loss) from operations | (4,610,674) | (29,901,050) |
| Income tax (benefit) calculated at 30% | (1,383,202) | (8,970,315) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 2,065,568 | 452,919 |
| Share based payments | 543,113 | 362,044 |
| Amortisation of intangible assets in other jurisdictions | 368,083 | 225,028 |
| Other non-deductible/non assessable items | (2,065,152) | (452,101) |
| | (471,590) | (8,382,425) |
| Adjustment in respect of prior years | 238,624 | (290,547) |
| Unused Australian tax losses and tax offsets now brought to account | (99,651) | (1,899,306) |
| Unused tax losses and tax offsets not recognised as deferred tax assets | 9,563,553 | 5,879,124 |
| Income tax expense/(benefit) attributable to Operating (Loss)/ Profit | 9,230,936 | (4,693,154) |

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, 0% in United Arab Emirates. Tax rates in the USA apply at a Federal, State and local level and can vary depending upon location. The tax rates applicable to the consolidated entity's USA operations have been assumed to approximate a combined rate 40%. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Deferred tax balances

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle current tax assets and liabilities on a net basis.

4. Income tax (cont)

The following are the major deferred tax liabilities and assets recognised by the consolidated entity and movements thereon during the current and prior period.

| | 2020 \$ | Charge/ (credit) to profit and loss \$ | Recognised in other Comprehensive income \$ | 2021 \$ |
|--|-------------|---|---|-------------|
| Deferred tax assets | | | | |
| Accruals | 440,995 | (198,421) | - | 242,574 |
| Business capital expenditure deductible over five years | 2,459,479 | (756,693) | - | 1,702,786 |
| Provision for annual leave | 1,868,334 | 505,667 | - | 2,374,001 |
| Provision for long service leave | 1,192,064 | 253,724 | - | 1,445,788 |
| Provision for estimated credit losses | 37,768 | (37,768) | - | - |
| Provision for decommissioning costs | 75,000 | - | - | 75,000 |
| Provision for obsolete stock | 29,206 | 132,835 | - | 162,041 |
| Provision for make good costs | 151,038 | 179,572 | - | 330,610 |
| Provision for warranty | 3,677,947 | (1,750,566) | - | 1,927,381 |
| Contract asset | 85,765 | 280,270 | - | 366,035 |
| Income tax losses | 44,382 | (44,382) | - | - |
| Foreign exchange gain arising from tax fair value adjustment | 6,083,264 | (5,727,803) | - | 355,461 |
| | 16,145,242 | (7,163,565) | - | 8,981,677 |
| Deferred tax liabilities | | | | |
| Prepaid insurance | (117,681) | 93,141 | - | (24,540) |
| Right of use assets | 266,217 | 4,252 | - | 270,469 |
| Property plant and equipment | (1,073,531) | (5,844) | - | (1,079,375) |
| Other | - | (183,017) | - | (183,017) |
| Acquired intangible assets | (3,877,583) | 418,562 | - | (3,459,021) |
| | (4,802,578) | 327,094 | - | (4,475,484) |
| Total | 11,342,664 | (6,836,471) | - | 4,506,193 |

4. Income tax (cont)

| | 2019 \$ | Charge/ (credit) to profit and loss \$ | Recognised in other Comprehensive income \$ | 2020 \$ |
|--|-------------|---|---|-------------|
| Deferred tax assets | | | | |
| Accruals | 512,970 | (71,975) | - | 440,995 |
| Business capital expenditure deductible over five years | 1,264,822 | (756,806) | 1,951,463 | 2,459,479 |
| Provision for annual leave | 1,420,466 | 447,868 | - | 1,868,334 |
| Provision for long service leave | 1,022,273 | 169,791 | - | 1,192,064 |
| Provision for estimated credit losses | 40,282 | (2,514) | - | 37,768 |
| Provision for decommissioning costs | 75,000 | - | - | 75,000 |
| Provision for obsolete stock | 6,186 | 23,020 | - | 29,206 |
| Provision for make good costs | 102,067 | 48,971 | - | 151,038 |
| Provision for warranty | 2,703,992 | 973,955 | - | 3,677,947 |
| Contract asset | - | 85,765 | - | 85,765 |
| Income tax losses | 233,537 | (189,155) | - | 44,382 |
| Foreign exchange gain arising from tax fair value adjustment | 106,473 | 5,976,791 | - | 6,083,264 |
| | 7,488,068 | 6,705,711 | 1,951,463 | 16,145,242 |
| Deferred tax liabilities | | | | |
| Right of use assets | (11,760) | 277,977 | - | 266,217 |
| Prepaid insurance | (183,353) | 65,672 | - | (117,681) |
| Property plant and equipment | - | (1,073,531) | - | (1,073,531) |
| Acquired intangible assets | (4,296,143) | 418,560 | - | (3,877,583) |
| | (4,491,256) | (311,322) | - | (4,802,578) |
| Total | 2,996,812 | 6,394,389 | 1,951,463 | 11,342,664 |

At the reporting date the consolidated entity has unused tax losses emanating from its non-Australian entities. No deferred tax asset has been recognised in respect of these balances as it is not considered probable that there will be future taxable profits available in these jurisdictions.

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 4. Income tax (cont) | | |
| (c) Unrecognised deferred tax balances | | |
| The following deferred tax assets have not been brought to account as assets | | |
| Tax losses - revenue | 40,315,837 | 29,314,979 |
| Temporary differences | 1,021,536 | 158,053 |
| | 41,337,373 | 29,473,032 |
| (d) Franking account balance | | |
| Adjusted franking account balance | 18,054,718 | 14,503,704 |

Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and some of its wholly owned Australian resident taxable 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 27.

Nature of tax funding arrangements and tax sharing agreements

As at 31 December 2021, there were formal tax funding and tax sharing arrangements within the Australian tax-consolidated or group.

5. Trade and other receivables

| | | |
|----------------------|------------|------------|
| Current | | |
| Trade receivables | 22,391,113 | 34,343,138 |
| GST receivable | 930,883 | 702,664 |
| Employee receivables | 181,010 | 764,999 |
| Other debtors | 30,139 | - |
| | 23,533,145 | 35,810,801 |
| Non-current | | |
| Trade receivables | - | 2,063,782 |

The average debtor days on sales of goods is 50 days. No interest is charged on outstanding late receivables.

The consolidated entity measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past known default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors. Based on this analysis, any ECLs on trade receivable balances at the end of the period are immaterial.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The consolidated entity writes-off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery (e.g., when the debtor has been placed under liquidation or has entered bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier). There were no receivables written off during the year and no receivables balances as at the end of the period are subject to enforcement activities.

| | Consolidated | |
|--------------------------------|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 6. Contract asset | | |
| Unbilled revenue - current | 106,843,848 | 124,532,902 |
| Unbilled revenue - non-current | 21,452,681 | 13,364,148 |
| | 128,296,529 | 137,897,050 |

The contract asset reflects amounts recognised in revenue on a milestone or a delivery basis in the defence, space, and communications segments, but not yet billed to the customer. Timing differences between the satisfaction of performance obligations and receipt of cash are expected to arise due to differences between the consolidated entity's revenue recognition policies (see Note 1(f)) and the terms of the underlying contracts. This is because contracts typically bill on a milestone basis that may not necessarily reflect progress under the contract.

The consolidated entity measures the loss allowance for the contract asset at an amount equal to the lifetime expected credit loss (ECL). The ECL on unbilled revenue is estimated using a provision matrix by reference to past known default experience with customers and an analysis of customers' current financial position, adjusted for factors that are specific to the customers. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The directors have concluded that any ECL against the contract asset is immaterial. This judgement is based on the nature of the counterparties involved, the payments received during the year, and continuing communications with the clients regarding administration of the underlying contracts.

During 2019 and 2020 revenue was constrained in relation to potential late deliveries on a major foreign contract, some of which were recognised in the first half of the year. Based on formal correspondence from the customer, positive operating performance under the contract and payments received under the contract during the year, the Directors determined that all remaining variable consideration withheld against this contract should be released, resulting in a cumulative catch-up to revenue in the year (see Note 1(x)).

The movement in the contract asset during the financial year is set out below.

| | | |
|---|--------------|--------------|
| Opening balance | 137,897,050 | 44,152,133 |
| Invoicing during the financial year | (99,259,341) | - |
| Net revenue recognised during the year | 63,359,075 | 105,059,701 |
| Variable consideration previously constrained, now recognised | 18,315,767 | 4,355,786 |
| Impact of foreign exchange and other movements | 8,308,152 | (15,384,686) |
| Impact of discounting - net | (324,174) | (285,884) |
| Closing balance | 128,296,529 | 137,897,050 |

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 7. Inventories | | |
| Raw materials - at net realisable value and cost | 27,626,422 | 17,243,821 |
| Work in progress - at cost | 47,493,091 | 49,345,296 |
| Finished goods - at cost | - | 796,516 |
| Provision for obsolete stock | (540,137) | (77,294) |
| | 74,579,376 | 67,308,339 |

| | | |
|--|------------|------------|
| 8. Prepayments and other assets | | |
| Current Prepayments* | 20,398,751 | 13,135,088 |
| Non-current other assets | - | 956,073 |

*These prepayments relate to prepayments made to suppliers for the delivery of component parts in relation to current orders.

| | | |
|--|---------|---------|
| 9. Remuneration of auditors | | |
| (a) Deloitte and related network firms* | | |
| Audit or review of the financial reports | | |
| - Consolidated entity | 447,728 | 426,799 |
| Other services | | |
| - Tax consulting services | 57,750 | 21,000 |
| | 505,478 | 447,799 |
| (b) Other Auditor and their related network firms | | |
| Audit or review of the financial reports | 15,000 | 15,279 |
| Other services | | |
| - Taxation services | 3,963 | 4,228 |
| | 18,963 | 19,507 |

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

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 10. Loan to associate | | |
| Unsecured convertible note to associate - AEI Air (Holdings) Limited | 2,513,380 | 2,391,940 |

On 23 April 2019 the consolidated entity entered into an Unsecured Convertible Note deed with a supplier, AEI Air (Holdings) Limited ("AEI"). See Note 30 for details of AEI.

The terms of the deed require AEI to issue to the consolidated entity up to five convertible notes, subject to certain conditions, of which \$2,780,265 (GBP1,500,000) has been paid, representing only four convertible notes. All five notes could be converted, in aggregate, into such number of shares which represents 51% of the issued share capital of the AEI at the date of conversion. Following payment of the first note the consolidated entity appointed two out of five directors of AEI and had the right to appoint, remove or replace such number of directors which represent 50% of the board of directors (equivalent to 50% of directors' voting rights under the revised articles of association).

The meeting of certain conditions, including product specifications, would enable the consolidated entity to request the issuance of the remaining notes at their discretion, and convert these into equity. The convertible notes are redeemable upon an event of default or at the maturity date (being 36 months after the date of issue of the first note above - 23 April 2019), and on redemption AEI must repay the face value of the notes to the consolidated entity. At the date of this report the consolidated entity has not requested the additional notes to be issued or that any notes be converted to equity.

On 23 April 2019 the consolidated entity also entered into a Put and Call Option deed with the shareholders of AEI. This deed allows the consolidated entity to call the remaining 49% of the shareholding in AEI at an aggregate exercise price based on an adjusted net profit after tax (NPAT) multiple. The shareholders also have a put option over the same interest. Further, under this agreement, should certain conditions be met, the shareholders are able to request the drawdown of loan advances to a maximum of GBP1,714,500, payable to the shareholders in four equal tranches. As at the date of this report the conditions required to enable the vendors to make any draw down of the loans under the agreement have not been met. Should the loans be called the agreement contains an offset clause under which the consolidated entity can offset against amounts payable should the put and call options be exercised. The put and call options can be exercised by the consolidated entity (or the shareholders) at any time up to and including 30 June 2022 but are conditional on the exercise of the Unsecured Convertible Notes as referred to above. The put and call option liability (in relation to the option) is carried at fair value through profit and loss.

The nature of the arrangement with AEI is as an associate, as the nature of the consolidated entity's interest is that of significant influence rather than accounting control.

On 30 December 2019, the consolidated entity entered into an agreement with an entity in the United Arab Emirates (who is a joint venture partner to EOS) to acquire a 2% interest in AEI should the consolidated entity exercise its Unsecured Convertible Note to acquire 51% of AEI, leaving the consolidated entity with a potential 49% interest. The consolidated entity also formally rescinded its right to appoint, remove or replace such number of directors which represent 50% of the board of directors (equivalent to 50% of directors' voting rights under the revised articles of association) via deed poll.

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 11. Right of use assets | | |
| (a) Office premises - at cost | 37,150,891 | 24,352,681 |
| Less accumulated depreciation and impairment | (9,384,256) | (5,377,819) |
| | 27,766,635 | 18,974,862 |
| (b) Office equipment - at cost | 1,611,855 | 1,658,150 |
| Less accumulated depreciation and impairment | (777,219) | (490,371) |
| | 834,636 | 1,167,779 |
| | 28,601,271 | 20,142,641 |
| Cost | | |
| Office premises | | |
| Balance at the beginning of the year | 24,352,681 | 15,345,320 |
| Adjustment due to lease modification | 31,758 | 4,918,308 |
| Additions | 13,251,297 | 4,681,032 |
| Disposals | (835,275) | (42,292) |
| Net foreign exchange differences | 350,430 | (549,687) |
| Balance at the end of the year | 37,150,891 | 24,352,681 |
| Office equipment | | |
| Balance at the beginning of the year | 1,658,150 | 531,391 |
| Additions | 64,492 | 1,126,759 |
| Write-offs | (110,787) | - |
| Balance at the end of the year | 1,611,855 | 1,658,150 |
| Accumulated Depreciation/Amortisation/ Impairment | | |
| Office premises | | |
| Balance at the beginning of the year | (5,377,819) | (1,805,748) |
| Adjustment due to lease modification | (4,188) | - |
| Depreciation | (4,636,359) | (3,784,728) |
| Disposals | 835,275 | 42,292 |
| Net foreign exchange differences | (201,165) | 170,365 |
| Balance at the end of the year | (9,384,256) | (5,377,819) |
| Office equipment | | |
| Balance at the beginning of the year | (490,371) | (109,835) |
| Depreciation | (348,396) | (380,536) |
| Write-offs | 61,548 | - |
| Balance at the end of the year | (777,219) | (490,371) |

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 12. Goodwill | | |
| Goodwill | 14,878,316 | 14,878,316 |
| The carrying amount of goodwill has been allocated to cash generating units ("CGUs") as follows: | | |
| Defence | 2,504,938 | 2,504,938 |
| Space | 2,504,938 | 2,504,938 |
| Communications | 9,868,440 | 9,868,440 |
| | 14,878,316 | 14,878,316 |

A description of each of the CGUs is outlined in Note 31.

The consolidated entity tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired. The recoverable amount of each cash generating unit is determined based on the fair value less costs of disposal arrived by discounting a cash flow forecast with the weighted average cost of capital of each CGU.

The cash flow forecast for the Defence CGU consists of projections for a five-year period including a terminal value calculation for the final year. The Space CGU and the Communications CGU are both expected to benefit from the investment that the consolidated entity has made in SpaceLink, which is valued over a 15-year period. The cash flow forecasts for the Space CGU and the Communications CGU therefore consist of projections for a 15-year period, including a terminal value calculation for the final year.

At 31 December 2021 the consolidated entity has assessed both internal and external indicators of impairment and did not find any such indicators.

Key assumptions

The key assumptions in the impairment model are:

| Assumption | Basis of Assumption |
|------------------------------|--|
| Sales opportunities pipeline | Sales opportunities are risk weighted for the combined probability of a given project going ahead and the likelihood that the consolidated entity is successful in achieving the anticipated role in that project. |
| Discount rate | Takes into account the risk-free rate, equity market risk and the specific risk premium for each CGU. Discount rates are therefore determined separately for each CGU, based on each CGU's individual circumstances. |
| Long-term growth rate | Represents the rate relevant to market conditions and business plans. The long-term growth rate included in the terminal value in calculating the fair value less costs of disposal for each CGU was 2.5%. |

The discount rates used in calculating the fair value less costs of disposal for each CGU are given below.

| | | |
|----------------|-------|-------|
| Defence | 12.8% | 12.3% |
| Space | 18.0% | 18.0% |
| Communications | 14.4% | 14.5% |

12. Goodwill (cont)

Sensitivity analysis

The consolidated entity conducted a sensitivity analysis to test changes in the key assumptions used to determine the recoverable amount for each of the CGUs to which goodwill is allocated.

The Directors believe that any reasonably possible change in the key assumptions would not cause the recoverable amount of either the Space CGU or the Communications CGUs to fall below their respective carrying value. Sensitivity testing for these CGUs included reducing the sales pipeline by 25%; reducing the long-term growth rate to 0.5% and increasing the discount rate by an additional 15%. In each case (and in combination) the recoverable amount of each CGU exceeded its respective carrying amount.

Sensitivity testing for the Defence CGU included reducing the sales pipeline by 17%; reducing the long-term growth rate to 0.5%; and increasing the discount rate to 18%. In each case the recoverable amount of the Defence CGU exceeded its carrying amount. Increasing the discount rate beyond 18% or reducing the future sales pipeline by more than 17%, or both in combination, would remove the headroom in the recoverable amount of the Defence CGU. The Directors do not consider movements beyond these level to be a reasonably possible change.

13. Intangible assets

| | Core technology (not patented) \$ | Patented technology \$ | Software \$ | Customer contracts and relationships \$ | Licences \$ | Total \$ |
|----------------------------|--|------------------------------|----------------|---|------------------|-------------------|
| Cost | | | | | | |
| At 1 January 2020 | 10,772,000 | 3,556,000 | 486,000 | 2,776,000 | - | 17,590,000 |
| Additions | - | - | - | - | 4,781,742 | 4,781,742 |
| Exchange differences | - | - | - | - | 52,757 | 52,757 |
| At 31 December 2020 | 10,772,000 | 3,556,000 | 486,000 | 2,776,000 | 4,834,499 | 22,424,499 |
| Exchange differences | - | - | - | - | 241,162 | 241,162 |
| At 31 December 2021 | 10,772,000 | 3,556,000 | 486,000 | 2,776,000 | 5,075,661 | 22,665,661 |
| Amortisation | | | | | | |
| At 1 January 2020 | 239,050 | 52,609 | 21,570 | 41,070 | - | 354,299 |
| Charge for the year | 1,077,200 | 237,067 | 97,200 | 185,067 | 750,094 | 2,346,628 |
| At 31 December 2020 | 1,316,250 | 289,676 | 118,770 | 226,137 | 750,094 | 2,700,927 |
| Exchange differences | - | - | - | - | 32,079 | 32,079 |
| Charge for the year | 1,077,200 | 237,067 | 97,200 | 185,067 | 1,226,942 | 2,823,476 |
| At 31 December 2021 | 2,393,450 | 526,743 | 215,970 | 411,204 | 2,009,115 | 5,556,482 |
| Carrying Amount | | | | | | |
| At 31 December 2021 | 8,378,550 | 3,029,257 | 270,030 | 2,364,796 | 3,066,546 | 17,109,179 |
| At 31 December 2020 | 9,455,750 | 3,266,324 | 367,230 | 2,549,863 | 4,084,405 | 19,723,572 |

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 14. Property, plant and equipment | | |
| (a) Plant and equipment - at cost | 17,373,314 | 14,546,429 |
| Less accumulated depreciation and impairment | (8,996,673) | (7,237,683) |
| | 8,376,641 | 7,308,746 |
| (b) Office equipment - at cost | 4,730,224 | 3,774,960 |
| Less accumulated depreciation and impairment | (2,811,703) | (1,938,813) |
| | 1,918,521 | 1,836,147 |
| (c) Furniture, fixtures and fittings - at cost | 1,318,005 | 1,300,250 |
| Less accumulated depreciation and impairment | (433,666) | (310,956) |
| | 884,339 | 989,294 |
| (d) Leasehold improvements - at cost | 2,440,399 | 2,260,998 |
| Less accumulated depreciation and impairment | (1,680,437) | (1,322,428) |
| | 759,962 | 938,570 |
| (e) Motor vehicle -at cost | 609,984 | 523,195 |
| Less accumulated depreciation and impairment | (284,263) | (172,455) |
| | 325,721 | 350,740 |
| (f) Computer software - at cost | 1,588,015 | 1,353,760 |
| Less accumulated depreciation | (962,354) | (549,613) |
| | 625,661 | 804,147 |
| (g) Test equipment - at cost | 2,736,081 | 2,578,086 |
| Less accumulated depreciation | (2,056,041) | (1,760,383) |
| | 680,040 | 817,703 |
| (h) Satellite - at cost | 7,000,000 | 7,000,000 |
| Less impairment | (7,000,000) | (7,000,000) |
| | - | - |
| (i) Capital works in progress | 44,297,472 | 16,080,171 |
| Less impairment | (1,789,867) | - |
| | 42,507,605 | 16,080,171 |
| Total net book value of Property, Plant and Equipment | 56,078,490 | 29,125,518 |

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 14. Property, plant and equipment (cont) | | |
| Cost | | |
| Plant and equipment | | |
| Balance at beginning of year | 14,546,429 | 12,051,766 |
| Additions | 562,318 | 5,538,539 |
| Transfers | 2,035,632 | 88,815 |
| Disposals and write offs | (34,908) | (3,116,301) |
| Net foreign currency exchange differences | 263,843 | (16,390) |
| Balance at end of year | 17,373,314 | 14,546,429 |
| Office equipment | | |
| Balance at beginning of year | 3,774,960 | 5,879,604 |
| Additions | 865,764 | 1,072,109 |
| Transfers | - | (88,816) |
| Disposals and write offs | (13,990) | (3,043,055) |
| Net foreign currency exchange differences | 103,490 | (44,882) |
| Balance at end of year | 4,730,224 | 3,774,960 |
| Furniture, fixtures and fittings | | |
| Balance at beginning of year | 1,300,250 | 1,711,437 |
| Additions | 17,614 | 197,570 |
| Disposals and write offs | - | (601,681) |
| Net foreign currency exchange differences | 141 | (7,076) |
| Balance at end of year | 1,318,005 | 1,300,250 |
| Leasehold improvements | | |
| Balance at beginning of year | 2,260,998 | 2,025,460 |
| Additions | 309,371 | 762,090 |
| Disposals and write offs | (132,776) | (483,229) |
| Net foreign currency exchange differences | 2,806 | (43,323) |
| Balance at end of year | 2,440,399 | 2,260,998 |
| Motor vehicles | | |
| Balance at beginning of year | 523,195 | 370,810 |
| Additions | 81,547 | 194,751 |
| Disposals and write offs | - | (30,332) |
| Net foreign currency exchange differences | 5,242 | (12,034) |
| Balance at end of year | 609,984 | 523,195 |

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 14. Property, plant and equipment (cont) | | |
| Cost (cont) | | |
| Computer software | | |
| Balance at beginning of the year | 1,353,760 | 436,726 |
| Additions | 252,557 | 1,038,800 |
| Disposals and write offs | (135,474) | (114,654) |
| Other movements | 113,737 | - |
| Net foreign currency exchange differences | 3,435 | (7,112) |
| Balance at end of year | 1,588,015 | 1,353,760 |
| Test equipment - at cost | | |
| Balance at beginning of the year | 2,578,086 | 2,790,535 |
| Additions | 157,995 | 193,286 |
| Disposals and write offs | - | (405,735) |
| Balance at end of year | 2,736,081 | 2,578,086 |
| Satellite | | |
| Balance at beginning of year | 7,000,000 | 7,000,000 |
| Balance at end of year | 7,000,000 | 7,000,000 |
| Capital works in progress | | |
| Balance at the beginning of the year | 16,080,171 | - |
| Additions | 30,756,873 | 16,080,171 |
| Transfer | (2,035,632) | - |
| Reallocation to cost of sales | (707,627) | - |
| Disposals and write offs | (109,551) | - |
| Net foreign currency exchange differences | 313,238 | - |
| Balance at end of year | 44,297,472 | 16,080,171 |

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 14. Property, plant and equipment (cont) | | |
| Accumulated depreciation/impairment | | |
| Plant and equipment | | |
| Balance at beginning of year | (7,237,683) | (8,751,221) |
| Depreciation | (1,594,668) | (1,067,045) |
| Disposals and write offs | - | 3,116,301 |
| Other movements | 12,149 | (544,998) |
| Net foreign currency exchange differences | (176,471) | 9,280 |
| Balance at end of year | (8,996,673) | (7,237,683) |
| Leased plant and equipment | | |
| Balance at beginning of year | - | (26,066) |
| Disposals and write offs | - | 26,066 |
| Balance at end of year | - | - |
| Office equipment | | |
| Balance at beginning of year | (1,938,813) | (4,320,255) |
| Depreciation | (823,498) | (706,697) |
| Other movements | - | 22,487 |
| Disposals and write offs | 4,131 | 3,043,044 |
| Net foreign currency exchange differences | (53,523) | 22,608 |
| Balance at end of year | (2,811,703) | (1,938,813) |
| Furniture, fixtures and fittings | | |
| Balance at beginning of year | (310,956) | (803,502) |
| Depreciation | (122,230) | (114,912) |
| Disposals and write offs | - | 601,681 |
| Net foreign currency exchange differences | (480) | 5,777 |
| Balance at end of year | (433,666) | (310,956) |
| Leasehold improvements | | |
| Balance at beginning of year | (1,322,428) | (1,362,124) |
| Depreciation | (479,910) | (472,101) |
| Disposals and write offs | 126,482 | 483,228 |
| Net foreign currency exchange differences | (4,581) | 28,569 |
| Balance at end of year | (1,680,437) | (1,322,428) |

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 14. Property, plant and equipment (cont) | | |
| Accumulated depreciation/impairment (cont) | | |
| Motor vehicle | | |
| Balance at beginning of year | (172,455) | (86,764) |
| Depreciation | (108,227) | (112,469) |
| Disposals and write offs | - | 17,204 |
| Net foreign currency exchange differences | (3,581) | 9,574 |
| Balance at end of year | (284,263) | (172,455) |
| Computer software | | |
| Balance at beginning of the year | (549,613) | (152,441) |
| Depreciation | (529,857) | (328,656) |
| Disposals and write offs | 126,558 | 21,772 |
| Other movements | (7,568) | (92,222) |
| Net foreign currency exchange differences | (1,875) | 1,934 |
| Balance at end of year | (962,355) | (549,613) |
| Test equipment | | |
| Balance at beginning of the year | (1,760,383) | (1,728,522) |
| Depreciation | (295,658) | (243,834) |
| Disposal | - | 211,854 |
| Net foreign currency exchange differences | - | 119 |
| Balance at end of year | (2,056,041) | (1,760,383) |
| Satellite | | |
| Balance at beginning of year | (7,000,000) | (7,000,000) |
| Balance at end of year | (7,000,000) | (7,000,000) |
| Capital work in progress | | |
| Balance at beginning of the year | - | - |
| Impairment | (1,789,867) | - |
| Balance at end of year | (1,789,867) | - |

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 \$1,789,867 impairment charge for the year in capital work in progress (2020: Nil).

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 15. Current trade and other payables | | |
| Trade payables | 18,588,238 | 18,248,534 |
| Accruals | 16,782,525 | 7,480,477 |
| Contract liability | 7,665,754 | 26,506,642 |
| | 43,036,517 | 52,235,653 |

The average creditor days on purchases of goods is 60 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.

Contract liability represents amounts received from customers in advance of the satisfaction of relevant performance obligations under the applicable contracts. The consolidated entity expects to deliver the goods and services in question within the next 12 months, in accordance with the terms of the underlying contracts. The amount of \$26,506,642 included in contract liabilities at 31 December 2020 has been recognised in revenue in 2021 (2020: \$2,386,503).

16. Secured borrowings

| | | |
|---------------------------|------------|---|
| RNC Nominees Pty Ltd loan | 34,448,384 | - |
|---------------------------|------------|---|

On 27 August 2021 the consolidated entity entered into a \$35 million working capital facility with RNC Nominees Pty Ltd. The facility has a 12-month term and carries interest of 9% per annum. The funds were drawn on 6 September 2021, with repayment in full required on or before 5 September 2022. The loan is secured by a general security deed which ranks pari passu with the Export Finance Australia facility (Note 33). Transaction costs of \$811,739 were incurred in obtaining the loan. These transaction costs are included in the carrying amount of the loan and are amortised over the loan period using the effective interest method. Interest paid on the loan is disclosed at Note 2(c).

17. Lease liabilities

Analysed as follows:

| | | |
|--------------------------|-------------------|-------------------|
| Current | 5,159,847 | 3,442,031 |
| Non-current | 24,864,019 | 17,665,942 |
| | 30,023,866 | 21,107,973 |
| Maturity analysis | | |
| Year 1 | 6,761,379 | 4,602,728 |
| Year 2 | 5,440,510 | 4,162,953 |
| Year 3 | 5,686,024 | 3,720,925 |
| Year 4 | 5,021,435 | 3,249,481 |
| Year 5 | 4,746,598 | 2,791,722 |
| Onwards | 7,340,108 | 6,108,025 |
| | 34,996,054 | 24,635,834 |
| Less: unearned interest | (4,972,188) | (3,527,861) |
| | 30,023,866 | 21,107,973 |

The consolidated entity does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations in Australia are denominated in Australian dollars and leases in overseas entities are based in the currency of the country concerned.

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 18. Provisions | | |
| Current | | |
| Employee benefits | 12,339,463 | 10,473,192 |
| Decommissioning costs | 250,000 | 250,000 |
| Warranty (Note 19) | 1,589,001 | 4,375,882 |
| | 14,178,464 | 15,099,074 |
| Non-current | | |
| Employee Benefits | 1,360,419 | 919,353 |
| Provision for make good | 1,052,870 | 503,457 |
| Warranty (Note 19) | 4,835,602 | 7,883,942 |
| | 7,248,891 | 9,306,752 |
| 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. | | |
| Movement in make good of premises - current | | |
| Balance as at 1 January | - | 43,919 |
| (Decreases)/Increases resulting from re-measurement | - | (43,919) |
| Balance as at 31 December | - | - |
| Movement in make good of premises - non-current | | |
| Balance as at 1 January | 503,457 | 296,302 |
| Increase during the period from new lease | 549,413 | 207,155 |
| Balance as at 31 December | 1,052,870 | 503,457 |
| Movement in under-utilised space | | |
| Balance as at 1 January | - | 212,715 |
| (Decreases)/Increases resulting from re-measurement | - | (212,715) |
| Balance as at 31 December | - | - |

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 19. Warranty provisions | | |
| Movement in warranty provision | | |
| Balance as at 1 January | 12,259,824 | 9,013,305 |
| Reductions resulting from expiry | (352,643) | (1,273,596) |
| Reduction resulting from change in estimate | (7,107,424) | - |
| Additional provisions recognised | 1,624,846 | 4,520,115 |
| Balance as at 31 December | 6,424,603 | 12,259,824 |
| Current (Note 18) | 1,589,001 | 4,375,882 |
| Non-Current (Note 18) | 4,835,602 | 7,883,942 |

The provision for warranty is determined based on Directors' best estimate of the expenditure required to settle the consolidated entity's liability under its warranty undertakings for military products, satellite communication terminals and telescopes.

The Directors made a critical judgement in relation to the valuation of the provision for warranty costs. The valuation is determined based on the Directors' best estimate of the expenditure required to settle the consolidated entity's liability under its warranty obligations.

During the year the Company reviewed the accumulated data regarding warranty claims on relevant sales to date, in particular from a significant defence contract to a customer in a foreign jurisdiction for which the warranty period was substantially complete. This review indicated that lower rates than those previously, particularly for sales of defence materiel, were justified. Based on this review the Directors have accordingly determined that the rates used to estimate warranty provisions should be adjusted.

Estimates and outcomes that have been applied in the assessing warranty provisions may change in the future and the consolidated entity will recognise any revisions deemed necessary as a result.

| | Consolidated | |
|---|------------------------------------|------------------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 20. Issued capital | | |
| Balance at the beginning of the financial year - Ordinary shares | 413,479,003 | 274,311,590 |
| Issue of 28,269,553 new shares at \$4.75 on 20 April 2020 (net of issuance costs) | - | 127,775,501 |
| Issue of 2,451,463 new shares at \$4.40 on 14 May 2020 under the Share Purchase Plan | - | 10,786,437 |
| Loan repayments on 202,500 shares issued under the Loan Funded Share Plan at \$2.99 | - | 605,475 |
| Loan repayments on 83,125 shares issued under Loan Funded Share Plan at \$2.99 | 248,544 | - |
| Balance at the end of the financial year | 413,727,547 | 413,479,003 |
| Fully Paid Ordinary Shares | | |
| | Number | Number |
| Balance at the beginning of financial year | 149,579,229 | 113,078,213 |
| Issue of new shares at \$4.75 on 20 April 2020 | - | 28,269,553 |
| Issue of new shares at \$4.40 under the Share Purchase Plan on 14 May 2020 | - | 2,451,463 |
| Issue of new shares at \$4.75 under the Loan Funded Share Plan to staff on 19 May 2020 | - | 2,270,000 |
| Issue of new shares at \$5.92 under the Loan Funded Share Plan to Directors on 29 May 2020 | - | 2,500,000 |
| Issue of new shares at \$5.62 under the Loan Funded Share Plan to staff on 10 August 2020 | - | 860,000 |
| Issue of new shares at \$5.47 under the Loan Funded Share Plan to staff on 14 October 2020 | - | 150,000 |
| Issue of 1,185,000 new shares at \$5.27 on 15 March 2021 under the Loan Funded Share Plan | 1,185,000 | - |
| Issue of 150,000 new shares at \$4.06 on 31 May 2021 to a Director under the Loan Funded Share Plan | 150,000 | - |
| Balance at end of financial year | 150,914,229 | 149,579,229 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The shares issued under the Loan Funded Share Plan are restricted shares subject to vesting and performance criteria under the Plan detailed in Note 22 to the financial statements and are treated as in substance options for accounting purposes.

The loan repayments in respect of 83,125 shares issued under the Loan Funded Share Plan at \$2.99 each made during the year resulted in the increase in Issued Capital of \$248,544 as these shares are treated as in substance options for accounting purposes.

21. Directors and 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 both Company and individual achievements against both qualitative and quantitative criteria.

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

Unlisted Options issued under the Employee Share Option Plan:

| | 2021 | | 2020 | |
|--|------------------|------------------------------------|------------------|------------------------------------|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Balance at the beginning of the financial year (i) | 1,075,000 | 4.60 | 220,000 | 2.99 |
| Granted during the year (ii) | 755,000 | 4.91 | 855,000 | 5.02 |
| Exercised during the year (iii) | - | - | - | - |
| Lapsed during the year (iv) | - | - | - | - |
| Balance at the end of the financial year (v) | 1,830,000 | 4.73 | 1,075,000 | 4.60 |
| Exercisable at the end of the year | 110,000 | 2.99 | 82,500 | 2.99 |

21. Directors and employees share option plan (cont)

(i) Balance at the beginning of the year

| | Number | Grant date | Expiry date | Exercise Price | Fair value at grant date |
|-------------|------------------|------------|-------------|----------------|--------------------------|
| 2021 | 220,000 | 20/06/2018 | 31/03/2023 | \$2.99 | \$61,369 |
| | 635,000 | 19/05/2020 | 18/05/2025 | \$4.75 | \$408,305 |
| | 220,000 | 16/11/2020 | 16/11/2025 | \$5.82 | \$197,134 |
| | 1,075,000 | | | | \$666,808 |
| 2020 | 220,000 | 20/06/2018 | 31/03/2023 | \$2.99 | \$61,369 |

(ii) Granted during the year

| | | | | | |
|---------------|----------------|------------|------------|--------|------------------|
| 2021 | | | | | |
| Staff options | 475,000 | 15/03/2021 | 16/03/2026 | \$5.27 | \$744,800 |
| Staff options | 280,000 | 22/07/2021 | 22/07/2026 | \$4.31 | \$202,160 |
| | 755,000 | | | | \$946,960 |
| 2020 | | | | | |
| Staff options | 635,000 | 19/05/2020 | 18/05/2025 | \$4.75 | \$408,305 |
| Staff options | 220,000 | 16/11/2020 | 16/11/2025 | \$5.82 | \$197,134 |
| | 855,000 | | | | \$605,439 |

(iii) Exercised during the year

There were no options exercised during the year (2020: nil).

(iv) Lapsed during the year

No Staff options lapsed during the year (2020: nil).

(v) Balance at the end of the financial year

| | | | | | |
|---------------|------------------|------------|------------|--------|--------------------|
| 2021 | | | | | |
| Staff options | 220,000 | 20/06/2018 | 31/03/2023 | \$2.99 | \$61,369 |
| Staff options | 220,000 | 16/11/2020 | 16/11/2025 | \$5.82 | \$197,134 |
| Staff options | 635,000 | 19/05/2020 | 18/05/2025 | \$4.75 | \$408,305 |
| Staff options | 475,000 | 15/03/2021 | 16/03/2026 | \$5.27 | \$744,800 |
| Staff options | 280,000 | 22/07/2021 | 22/07/2026 | \$4.31 | \$202,160 |
| | 1,830,000 | | | | \$1,613,768 |
| 2020 | | | | | |
| Staff options | 220,000 | 16/11/2020 | 16/11/2025 | \$5.82 | \$197,134 |
| Staff options | 635,000 | 19/05/2020 | 18/05/2025 | \$4.75 | \$408,305 |
| Staff options | 220,000 | 20/06/2018 | 31/03/2023 | \$2.99 | \$61,369 |
| | 1,075,000 | | | | \$666,808 |

21. Directors and employees share option plan (cont)

These staff options have similar vesting and forfeiture conditions as those issued under the Loan Funded Share Plan summarised in Note 22. The options issued were priced using the Monte Carlo Simulation method model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

The inputs used in the model for these option grants are summarised in the table below:

| | | | | | |
|---|--------------|------------|------------|------------|------------|
| Issue date | 20/06/2018 | 19/05/2020 | 16/11/2020 | 15/03/2021 | 22/07/2021 |
| Number of staff options | 220,000 | 635,000 | 220,000 | 475,000 | 280,000 |
| Dividend yield | - | - | - | - | - |
| Expected volatility (linearly interpolated) | 30.00% | 40.00% | 40.00% | 45.00% | 45.00% |
| Risk free interest rate | 2.32% | 0.40% | 0.31% | 0.71% | 0.58% |
| Expected life of options | 1,745 days * | 1,789 days | 1,825 days | 1,827 days | 1,826 days |
| Grant date share price | \$2.91 | \$4.98 | \$6.07 | \$5.37 | \$4.16 |
| Exercise price | \$2.99 | \$4.75 | \$5.82 | \$5.27 | \$4.31 |
| Fair value of options on grant date: | | | | | |
| Tranche A (50% of options issued) | \$0.2885 | \$0.557 | \$0.773 | \$1.370 | \$0.494 |
| Tranche B (50% of options issued) | \$0.2694 | \$0.729 | \$1.019 | \$1.766 | \$0.950 |

*These options commenced to vest after 30 June 2020 on the basis of 12.5% of their number each quarter subject to share price and profitability hurdles being achieved.

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

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 the employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 22 to the financial statements.

22. Loan funded share plan

The Board has established an employee incentive scheme known as the Electro Optic Systems Holdings Limited Loan Funded Share Plan (LFSP), pursuant to which fully paid restricted ordinary shares in the Company ("Shares") are acquired by participants ("Participants") of the consolidated entity using a loan made to them by the Company. Shareholders approved the establishment of the LFSP and the participation of directors in the LFSP at the Annual General Meeting held on 24 April 2018.

The loans are limited recourse, interest and fee free and are repayable in full on the earlier of the termination date of the loan (five years) or the date on which the shares are sold in accordance with the terms of the LFSP.

Under the applicable Accounting Standards, the LFSP shares are accounted for as options, which give rise to share based payments.

The Shares are subject to both 'Vesting Conditions' and 'Forfeiture Conditions':

- The vesting conditions are split into two different tranches which are outlined in the tables below. Participants are required to satisfy the Vesting Conditions in order for their Shares to vest.
- While Participants hold their Shares, they will be subject to Forfeiture Conditions and Participants will forfeit their Shares if either they fail to satisfy the Vesting Conditions or they cease to be employed or continue to provide services to the consolidated entity in certain circumstances.

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares vest and Participants may deal with them in accordance with the rules of the LFSP subject to sale restrictions and other legal restrictions (such as under the Company's trading policy).

The Shares will vest at the end of each 'Vesting Period' in the manner set out in the tables below, provided that the following conditions are met:

- (a) participants continue to provide services to EOS on each of the vesting dates (or such other date on which the Board makes a determination as to whether the Vesting Conditions have been met);
- (b) the performance hurdles set out below are satisfied, which relate to the Company's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for Shares to vest under each tranche; and
- (c) further vesting conditions may apply to individualised arrangements.

If the Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, Directors and selected employees will forfeit their unvested Shares (unless the Board exercises its discretion to permit those Shares to vest in accordance with the terms of the LFSP).

All the ordinary restricted fully paid shares issued have been valued using the Monte Carlo Simulation method model as the shares have a share price hurdle in the vesting conditions. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, vesting restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

22. Loan funded share plan (cont)

The following tables summarise the loan funded shares issued to date:

2018 Loan funded shares:

| | |
|--|--|
| Issue date | 20 June 2018 |
| | (Shareholders approved the participation of directors in the LFSP at the Annual General Meeting (AGM) held on 24 April 2018) |
| Shares issued | 5,180,000 |
| | (4,000,000 shares issued to directors and KMP) |
| Fair Value at issue date | \$1,444,963 |
| Dividend yield | - |
| Expected volatility (linearly interpolated) | 30.00% |
| Risk free interest rate | 2.32% |
| Expected life of options | 1,745 days |
| Issue price | \$2.99 |
| Grant date share price | \$2.91 |

Vesting conditions: **Tranche A: (applies to 50% of the total number of shares to be issued above)**

Measures and hurdles:

1. EBIT of \$5m for the 12 months ending 31 December 2018 (met); and
2. a Share Price Hurdle of \$4.50 by 31 December 2019 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2019) (met)

Vested Shares can be sold after:

- 30-Jun-20: (25% of Vested Shares)
- 30-Sep-20: (50% of Vested Shares)
- 31-Dec-20: (75% of Vested Shares)
- 31-Mar-21: (100% of Vested Shares)

Other conditions and status:

- i. Defence Systems profit exceeds A\$8m for 2018 and A\$20m for 2019 (met);
- ii. Space Systems loss does not exceed A\$3m for 2018 and A\$2m for 2019 (met);
- iii. Defence Systems production exceeds 275 units for 2018 and 350 units for 2019. The production target for 2019 was originally 400 units, however, was varied by the Board to 350 units in accordance with its discretion and has been met.

22. Loan funded share plan (cont)

2018 Loan funded shares (continued):

Vesting conditions:

Tranche B: (applies to 50% of the total number of shares to be issued above)

Measures and hurdles

1. EBIT of \$15m for the 12 months ending 31 December 2019; and
2. a Share Price Hurdle of \$7.50 by 31 December 2021 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021) *.

Vested Shares can be sold after:

- 30-Jun-22: (25% of Vested Shares)
- 30-Sep-22: (50% of Vested Shares)
- 31-Dec-22: (75% of Vested Shares)
- 31-Mar-23: (100% of Vested Shares)

Other conditions and status:

- i. The original condition was that Defence Systems profit exceeds A\$20m for 2020, however this was removed by the Board in accordance with its discretion due to COVID;
- ii. Space Systems profit exceeds \$1M for 2020 (met) and \$3M for 2021 (not met **);
- iii. Defence Systems production exceeds 272 units for 2020. The production target for 2020 was originally 480 units, however was varied by the Board to 272 units in accordance with its discretion due to COVID and has been met.

* EBIT hurdle for the 12 months ended 31 December 2019 and the share price hurdle of \$7.50 by 31 December 2021 were both met.

** As the profit target for 2021 was not met, 117,500 shares issued to employees in Space Systems lapsed on 31 December 2021.

22. Loan funded share plan (cont)

2020 Loan funded shares:

| | 19 May 2020 | 29 May 2020 | 10 August 2020 | 14 October 2020 |
|--|-------------|-------------|----------------|-----------------|
| Issue date | 19 May 2020 | 29 May 2020 | 10 August 2020 | 14 October 2020 |
| Shares issued | 2,270,000* | 2,500,000** | 860,000*** | 150,000 |
| Fair Value at issue date | \$1,459,611 | \$2,463,750 | \$651,880 | \$125,925 |
| Dividend yield | - | - | - | - |
| Expected volatility (linearly interpolated) | 40.00% | 40.00% | 40.00% | 40.00% |
| Risk free interest rate | 0.31% | 0.34% | 0.34% | 0.23% |
| Expected life of options | 1,789 days | 1,752 days | 1,679 days | 1,643 days |
| Issue price | \$4.75 | \$4.92 | \$5.62 | \$5.47 |
| Grant date share price | \$4.98 | \$5.68 | \$5.68 | \$6.01 |

Vesting conditions:

Tranche A: (applies to 50% of the total number of shares to be issued above)

Measures and hurdles:

A share Price Hurdle of \$9.50 by 31 December 2021 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021****).

Vesting period:

The period of 2 calendar years ending 31 December 2021

Vested Shares can be sold after:

- 30-Jun-22: (25% of Vested Shares)
- 30-Sep-22:(50% of Vested Shares)
- 31-Dec-22: (75% of Vested Shares)
- 31-Mar-23: (100% of Vested Shares)

Other conditions and status:

- i. Six staff members within EM Solutions must achieve an EBIT for EM Solutions of \$3m for the year ended 31 December 2020 (met);
- ii. Eight senior executives including four KMP's originally had EBIT target for the consolidated entity of \$27m for the year ended 31 December 2020, however this was removed by the Board as a result of COVID;
- iii. One executive in the Communications Systems sector has specific project milestones in relation to his project; and
- iv. Participants in the various sectors have to meet the additional hurdles established by the directors in relation to each sector.

22. Loan funded share plan (cont)

2020 Loan funded shares (cont)

Vesting conditions:

Tranche B: (applies to 50% of the total number of shares to be issued above)

Measures and hurdles:

A Share Price Hurdle of \$11.50 by 31 December 2022 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2022 *****).

Vesting period:

The period of four calendar years ending 31 December 2023

Vested Shares can be sold after:

30-Jun-24: (25% of Vested Shares)

30-Sep-24: (50% of Vested Shares)

31-Dec-24: (75% of Vested Shares)

31-Mar-25: (100% of Vested Shares)

Other conditions and status:

- i. Six staff members within EM Solutions must achieve an EBIT for EM Solutions Pty Ltd of \$3m for the year ended 31 December 2020 (met);
- ii. Eight senior executives including four KMP's have an EBIT target for the consolidated entity of \$36m for the year ended 31 December 2021 (not met *****);
- iii. One executive in the Communications Systems sector has specific project milestones in relation to his project; and
- iv. Participants in the various sectors have to meet the additional hurdles established by the directors in relation to each sector.

*580,000 shares issued to KMP.

**All shares issued to Directors following approval at the AGM held on 29 May 2020.

***830,000 shares issued to KMP.

**** This price hurdle date of 31 December 2021 was extended by three years by the Directors on 16 November 2021 for executives and staff. As the price hurdle was not met, 1,250,000 shares issued to Directors lapsed on 31 December 2021.

***** This price hurdle date of 31 December 2022 was extended by three years by the Directors on 16 November 2021 for executives and staff.

*****As the EBIT target for the consolidated entity was not met for 2021, 432,500 shares issued to executives lapsed on 31 December 2021.

22. Loan funded share plan (cont)

2021 Loan funded shares:

| | 15 March 2021 | 31 May 2021 |
|---|---------------|-------------|
| Issue date | 15 March 2021 | 31 May 2021 |
| Shares issued | 1,185,000* | 150,000** |
| Fair Value at issue date | \$2,602,880 | \$114,750 |
| Dividend yield | - | - |
| Expected volatility (linearly interpolated) | 45% | 45% |
| Risk free interest rate | 0.71% | 0.71% |
| Expected life of options | 1,827 days | 1,491 days |
| Issue price | \$5.27 | \$4.06 |
| Grant date share price | \$5.37 | \$4.10 |

Vesting conditions:

Tranche A: (applies to 50% of the total number of shares to be issued above)

Measures and hurdles:

A share Price Hurdle of \$9.50 by 30 June 2023 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2023***).

Vesting period:

The period ending 30 June 2023

Vested Shares can be sold after:

- 30-Jun-23: (25% of Vested Shares)
- 30-Sep-23: (50% of Vested Shares)
- 31-Dec-23: (75% of Vested Shares)
- 31-Mar-24: (100% of Vested Shares)

Other conditions and status:

- i. Space Systems sector is EBIT positive in 2022
- ii. Defence Systems sector is EBIT positive in 2022
- iii. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

22. Loan funded share plan (cont)

Tranche B: (applies to 50% of the total number of shares to be issued above)

Measures and hurdles:

A Share Price Hurdle of \$11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025****).

Vesting period:

The period ending 30 June 2025

Vested Shares can be sold after:

30-Jun-25: (25% of Vested Shares)

30-Sep-25:(50% of Vested Shares)

31-Dec-25: (75% of Vested Shares)

31-Mar-26: (100% of Vested Shares)

Other conditions and status:

- i. Space Systems sector is EBIT positive in 2024
- ii. Defence Systems sector is EBIT positive in 2024
- iii. Participants have to meet the additional hurdles established by the Directors in relation to each sector.

*345,000 shares issued to KMP.

** All shares issued to a Director following approval at the AGM held on 28 May 2021.

*** This price hurdle date of 30 June 2023 was extended by three years by the Directors on 16 November 2021 for executives and staff.

**** This price hurdle date of 30 June 2025 was extended by three years by the Directors on 16 November 2021 for executives and staff.

22. Loan funded share plan (cont)

Other features of the LFSP structure

Shares are held in an employee share trust, on behalf of Participants, until all Vesting Conditions are satisfied in accordance with their terms of issue and the Loan relating to the Shares is repaid in full.

If the Company pays dividends or make capital distributions, the after-tax value of any dividends paid or distributions made to a Participant will be applied to repay the Loan. The balance (i.e., the estimated value of the tax payable by the Participant on the dividend or distribution) is paid to the Participant to allow them to fund their tax liability on the dividend or distribution.

At the end of the period for the Vesting Conditions and subject to continuous employment or engagement of services with the Company, the Participants are able to dispose of their Shares on repayment of any outstanding Loan balance. However, the Board may impose sale restrictions on the Shares for a period of time after vesting.

There may be circumstances where LFSP participants cease working for the consolidated entity prior to the vesting of their LFSP shares and where participants cease working for the entity after the vesting of their LFSP shares but prior to there being a right of sale of some or all of those vested shares. In either instance, on cessation of employment, the Board has discretion to determine whether the Participant is a Bad Leaver, a Good Leaver or a Leaver and the following provisions apply:

Bad Leaver. All Unvested Loan Funded Shares held by the Participant will be forfeited and any Vested Loan Funded Shares will be disposed of or Bought-back, in each case in accordance with the buy-back rules of the Scheme, if either:

- they remain subject to any Conditions or disposal restrictions;
- they remain held in trust (for any reason); or
- the Loan applicable to those Shares has not been repaid in full.

Good Leaver. Subject to the Board's discretion to determine otherwise (including the discretion to permit some or all Unvested Loan Funded Shares to vest based on its assessment of the circumstances in which the Participant has ceased employment), Unvested Loan Funded Shares will vest pro rata to the proportion of the Vesting Period that has elapsed as at the date on which employment ceases and having regard to the extent to which any Performance Conditions have been achieved (as determined by the Board). The balance of Loan Funded Shares that do not vest will be disposed of or Bought-back, in each case in accordance with the buy-back rules of the Scheme.

Leaver. Unvested Loan Funded Shares will normally be disposed of or Bought-back, in each case in accordance with the buy-back rules of the scheme, subject to the Board's discretion to permit some or all of those Unvested Loan Funded Shares to vest based on its assessment of the circumstances in which the Participant has ceased employment.

A Good Leaver or Leaver may retain Vested Loan Funded Shares and may deal with any Vested Loan Funded Shares subject to repaying the outstanding Loan balance by the earlier of its expiry date or the date which is three months from the cessation date or twelve months in the case of a Participant who ceases employment due to death.

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| 23. Reserves | | |
| Foreign currency translation | (1,823,365) | (3,167,394) |
| Employee equity-settled benefits | 13,390,414 | 11,580,036 |
| | 11,567,049 | 8,412,642 |
| Foreign currency translation | | |
| Balance at beginning of financial year | (3,167,394) | (1,061,206) |
| Translation of foreign operations | 1,344,029 | (2,106,188) |
| Balance at end of financial year | (1,823,365) | (3,167,394) |

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, Singaporean dollars, being the functional currency of the consolidated entity's foreign controlled entity in Singapore and Dirham being the functional currency in the United Arab Emirates, 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.

| | | |
|---|------------|------------|
| Employee equity-settled benefits | | |
| Balance at beginning of financial year | 11,580,036 | 10,373,224 |
| Share based payment | 1,810,378 | 1,206,812 |
| Balance at end of financial year | 13,390,414 | 11,580,036 |

The employee equity-settled benefits reserve arises on the grant of share options to directors and executives under the Employee Share Option Plan and Loan Funded Share Plan. Further information about share-based payments to employees is made in Note 22 to the financial statements. Items included in employee equity-settled benefits reserve will not be reclassified subsequently to profit or loss.

| | | |
|---|--------------|--------------|
| 24. Accumulated losses | | |
| Balance at beginning of financial year | (80,953,486) | (56,550,804) |
| Net (loss) attributable to members of the parent entity | (13,004,520) | (24,402,682) |
| Balance at end of financial year | (93,958,006) | (80,953,486) |

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |

25. Notes to the cash flow statement

(a) Reconciliation of Cash and cash equivalents

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

| | | |
|---|--------------|---------------|
| Cash and cash equivalents - current | 59,260,655 | 65,933,499 |
| (b) Reconciliation of (loss) before income tax to net cash flows from operating activities | | |
| (Loss) before income tax | (4,610,674) | (29,901,050) |
| Amortisation of intangibles | 2,823,476 | 2,346,628 |
| Equity settled share-based payments | 1,810,378 | 1,206,812 |
| Depreciation and amortisation of property, plant and equipment | 3,954,048 | 3,045,714 |
| Impairment of capital work in progress | 1,789,867 | - |
| Depreciation of right of use assets | 4,984,755 | 4,165,264 |
| Loss on sale of property, plant and equipment | 8,917 | 299,900 |
| Tax paid | (2,627,129) | (11,968,689) |
| Foreign exchange movements | (1,544,254) | (41,369) |
| (Increase)/decrease in assets | | |
| Receivables and contract assets | 23,941,960 | (92,507,500) |
| Inventories | (7,271,037) | (13,817,166) |
| Other assets and prepayments | (6,047,467) | 7,736,949 |
| Increase/(decrease) in liabilities | | |
| Provisions | (3,660,661) | 5,009,540 |
| Trade and other payables | 5,510,163 | (8,854,489) |
| Deferred income | (18,840,888) | 24,120,139 |
| Net cash inflows / (outflows) from operating activities | 221,454 | (109,159,317) |

Consolidated

| 31 December 2021 \$ | 31 December 2020 \$ |
|---------------------------|---------------------------|
|---------------------------|---------------------------|

26. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 27.

(b) Key management personnel compensation

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

| | | |
|--------------------------|-----------|-----------|
| Short term benefits | 3,456,275 | 3,318,555 |
| Post-employment benefits | 278,380 | 250,197 |
| Share based payments | 998,815 | 838,886 |
| Long term benefits | 303,805 | 177,631 |
| | 5,037,275 | 4,585,269 |

(c) Transactions with other related parties

Other related parties include:

- the parent entity;
- associates;
- joint venture partners; and
- subsidiaries.

The consolidated entity did not enter into any transactions with other related parties outside of the ordinary course of business.

(d) Other transactions with key management personnel or director related entities

During the year, the Company paid a total of \$105,000 (2020: \$140,000) 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 paid \$29,166 (2020: \$70,000) 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 \$70,000 (2020: \$70,000) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors' fees and superannuation for Geoff Brown.

During the year, the Company paid \$17,500 (2020: \$nil) to Technology Innovation Partners Pty Ltd, a company associated with Ms Kate Lundy in respect of directors' fees and superannuation for Kate Lundy.

During the year, the Company paid \$90,000 (2020: \$216,000) 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 \$18,970 (2020: \$31,775) 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.

(e) Parent entity

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

27. Controlled entities

| Name of Entity | Country of Incorporation | December 2021 % | December 2020 % |
|--|--------------------------|-----------------|-----------------|
| Parent Entity | | | |
| Electro Optic Systems Holdings Limited (i), (ii) | Australia | | |
| Controlled Entities | | | |
| Electro Optic Systems Pty Limited (ii), (iii) | Australia | 100 | 100 |
| EOS Defence Systems Pty Limited (ii), (iii) | Australia | 100 | 100 |
| FCS Technology Holdings Pty Limited (ii) | Australia | 100 | 100 |
| EOS Space Systems Pty Limited (ii) | Australia | 100 | 100 |
| EOS UAE Holdings Pty Limited (ii) | Australia | 100 | 100 |
| EOS Communications Systems Pty Ltd (ii) | Australia | 100 | 100 |
| EM Solutions Pty Ltd (ii), (iii) | Australia | 100 | 100 |
| EOS Loan Plan Pty Ltd (iv) | Australia | - | - |
| Australian Missile Alliance Pty Ltd (v) | Australia | 100 | - |
| EOS Optical Technologies Ltd (vi) | New Zealand | 100 | - |
| EOS Space Spectrum LLC | USA | 100 | 100 |
| Spacelink Corporation | USA | 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 |
| EOS Defense Systems USA Inc (Inc in Alabama) | USA | 100 | 100 |
| EOS Advanced Technologies LLC (vii) | UAE | 49 | 49 |
| EOS Optronics GmbH | Germany | 100 | 100 |
| EOS Defense Systems Pte Limited | Singapore | 100 | 100 |

(i) Electro Optic Systems Holdings Limited is the head entity within the tax-consolidated group.

(ii) These companies form part of the Australian consolidated tax entity.

(iii) These wholly owned subsidiaries have entered into a deed of cross guarantee with Electro Optic Systems Holdings Limited pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/875* and are relieved from the requirement to prepare and lodge an audited financial report.

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited entered into a deed of cross guarantee with two of its Australian wholly owned subsidiaries Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, the parent entity Electro Optic Systems Holdings Limited entered into a Deed of Assumption which joined EM Solutions Pty Limited as part of the Deed of Cross Guarantee from the effective date of acquisition which was 11 October 2019.

27. Controlled entities (cont)

- (iv) EOS Loan Plan Pty Ltd is the trustee of the Loan Funded Share Plan. EOS Loan Plan Pty Ltd was incorporated on 5 December 2019. Electro Optic Systems Holdings Limited has the ability to direct the relevant activities of the entity.
- (v) On 2 June 2021, Australian Missile Alliance Pty Ltd was incorporated in Australia with the consolidated entity owning 100% of the issued share capital.
- (vi) On 25 November 2021, EOS Optical Technologies Ltd was incorporated in New Zealand with the consolidated entity owning 100% of the issued share capital.
- (vii) Whilst the consolidated entity owns less than 50% of the shares, pursuant to the shareholder and related agreements, it has existing rights that give it the ability to direct the relevant activities of the company and is entitled to 80% of company distributions.

Deloitte Touche Tohmatsu is the auditor of the consolidated entity. EOS Defense Systems Pte Limited is audited by Assurance Affiliates, Chartered Accountants in Singapore and EOS Advanced Technologies LLC is audited by M A International Consulting LLC in UAE and are the only entities with a separately appointed statutory auditor.

| | Consolidated | |
|---|------------------------------------|------------------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| (a) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the deed of cross guarantee | | |
| The consolidated income statement of the entities which are parties to the deed of cross guarantee are: | | |
| Revenue and other income | 206,175,693 | 184,789,288 |
| Changes in inventories of work in progress and finished goods | 4,568,559 | (36,809,495) |
| Raw materials and consumables used | (106,640,032) | (79,358,918) |
| Employee benefits expense | (41,029,474) | (35,395,800) |
| Administration expenses | (27,636,751) | (16,336,737) |
| Amortisation of intangibles | (1,596,533) | (1,596,533) |
| Interest paid on right of use assets | (1,006,379) | (1,199,353) |
| Interest on secured borrowings | (975,465) | - |
| Interest on discounting of the contract asset | (750,123) | - |
| Depreciation and amortisation of property, plant and equipment | (2,286,740) | (2,109,304) |
| Depreciation of right of use assets | (3,034,938) | (2,626,573) |
| Loss on sale of fixed assets | (8,917) | (299,900) |
| Foreign exchange gains/(losses) | 9,907,679 | (21,809,465) |
| Occupancy costs | (1,194,909) | (1,176,656) |
| Provision for loss on loans to subsidiaries | - | (9,156,651) |
| Other expenses | (1,831,052) | (2,010,713) |
| Profit/(Loss) before income tax | 32,660,618 | (25,096,810) |
| Income tax (expense)/ benefit | (9,230,936) | 4,693,154 |
| Profit/(Loss) for the year | 23,429,682 | (20,403,656) |

27. Controlled entities (cont)

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| (b) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the deed of cross guarantee | | |
| The consolidated statement of financial position of the entities which are parties to the deed of cross guarantee: | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 48,813,906 | 63,385,562 |
| Trade and other receivables | 21,299,620 | 35,438,666 |
| Current tax asset | 195,928 | - |
| Contract assets | 106,539,102 | 124,464,309 |
| Inventories | 69,080,037 | 60,943,278 |
| Other | 17,125,196 | 11,482,807 |
| TOTAL CURRENT ASSETS | 263,053,789 | 295,714,622 |
| NON-CURRENT ASSETS | | |
| Trade and other receivables | - | 2,063,782 |
| Contract asset | 21,244,607 | 13,364,149 |
| Loans to subsidiaries | 83,724,407 | 25,219,459 |
| Other | - | 956,073 |
| Deferred tax assets | 4,506,193 | 11,342,664 |
| Security deposit | 22,557,678 | 13,102,140 |
| Loan to associate | 2,513,380 | 2,391,940 |
| Right of use asset | 20,490,035 | 16,553,740 |
| Goodwill | 14,878,316 | 14,878,316 |
| Intangible assets | 14,042,634 | 15,639,168 |
| Property, plant and equipment | 27,203,231 | 19,363,984 |
| TOTAL NON-CURRENT ASSETS | 211,160,481 | 134,875,415 |
| TOTAL ASSETS | 474,214,270 | 430,590,037 |

27. Controlled entities (cont)

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| (b) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the deed of cross guarantee (cont) | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | 33,360,521 | 49,492,514 |
| Current tax liabilities | - | 36,736 |
| Secured borrowings | 34,448,384 | - |
| Lease liabilities | 2,582,286 | 2,043,059 |
| Provisions | 11,733,803 | 13,716,579 |
| TOTAL CURRENT LIABILITIES | 82,124,994 | 65,288,888 |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | 6,828,535 | 15,341,106 |
| Provisions | 19,070,444 | 9,258,350 |
| TOTAL NON-CURRENT LIABILITIES | 25,898,979 | 24,599,456 |
| TOTAL LIABILITIES | 108,023,973 | 89,888,344 |
| NET ASSETS | 366,190,297 | 340,701,693 |
| EQUITY | | |
| Issued capital | 413,727,547 | 413,479,003 |
| Reserves | 13,390,414 | 11,580,036 |
| Accumulated losses | (60,927,664) | (84,357,346) |
| TOTAL EQUITY | 366,190,297 | 340,701,693 |
| The consolidated accumulated losses of the entities which are party to the deed of cross guarantee are: | | |
| Balance at the start of the year | (84,357,346) | (63,953,690) |
| Add | | |
| Net profit/(loss) for the year | 22,429,682 | (20,403,656) |
| Balance at end of the year | (60,927,664) | (84,357,346) |

28. Joint operations

The consolidated entity is party to a joint operation. The consolidated entity has a share in the operation based on capital contributions that entitles it to a proportionate share of revenue earned from the operation. The operation is not yet active.

29. Financial risk management objectives and policies

The consolidated entity's principal financial instruments comprise receivables, payables, contract assets, borrowings, finance leases, cash and short-term deposits. These instruments expose the consolidated entity to a variety of risks that it must manage including, market risk (such as currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

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

At balance date the consolidated entity had the following mix of financial assets exposed to interest rate risk that are not designated in cash flow hedges:

| | Consolidated | |
|---------------------------|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| Financial assets | | |
| Cash and cash equivalents | 59,260,655 | 65,933,499 |
| Security deposits | 21,871,032 | 12,313,468 |
| | 81,131,687 | 78,246,967 |

At balance date the consolidated entity had financial liabilities with a fixed rate of interest. These liabilities therefore do not introduce an exposure to movement in interest rates.

| Financial Liabilities | | |
|------------------------------|------------|---|
| Borrowings | 34,448,384 | - |
| | 34,448,384 | - |

The consolidated entity 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 2021, 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) | |
|---|--------------------------------|------------|-----------------------|------------|
| | 2021 \$ | 2020 \$ | 2021 \$ | 2020 \$ |
| Consolidated | | | | |
| +1% (100 basis points) | 567,922 | 547,729 | 567,922 | 547,729 |
| -0.1% (10 basis points) | (56,792) | (54,773) | (56,792) | (54,773) |

The movements in profits are due to lower interest rates on cash balances.

29. Financial risk management objectives and policies (cont)

(b) Foreign currency risk

The consolidated entity's financial results can be significantly affected by movements in the US\$/A\$ exchange rates. There are also exposures to Singapore dollars from operations in that country. Exchange rates are managed within approved policy parameters using natural hedges and no derivatives are used.

The consolidated entity 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 consolidated entity is to convert surplus foreign currencies to Australian dollars. The consolidated entity also holds cash deposits in US dollars to secure US dollar bank guarantees and performance bonds to overseas customers.

At 31 December 2021, the consolidated entity had the following exposure to US\$ foreign currency:

| | Consolidated | |
|------------------------------|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| Financial assets | | |
| Cash and cash equivalents | 41,183,065 | 6,905,482 |
| Security deposits | 26,925,341 | 15,777,649 |
| Contract asset | 117,056,589 | 137,897,050 |
| Trade and other receivables | 4,556,516 | 25,794,723 |
| | 189,721,511 | 186,374,904 |
| Financial liabilities | | |
| Lease liabilities | 7,104,211 | 3,632,322 |
| Trade and other payables | 20,756,245 | 3,270,171 |
| | 27,860,456 | 6,902,493 |
| Net exposure | 161,861,055 | 179,472,411 |

All US\$ denominated financial instruments were translated to A\$ at 31 December 2021 at the exchange rate of 0.7261 (2020: 0.7707).

At 31 December 2021 and 2020, 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 Higher/(Lower) | | Equity Higher/(Lower) | |
|---|-----------------------------------|--------------|--------------------------|--------------|
| | 2021 \$ | 2020 \$ | 2021 \$ | 2020 \$ |
| Consolidated | | | | |
| AUD/USD +10% | (10,901,081) | (11,420,972) | (10,901,081) | (11,420,972) |
| AUD/USD -5% | 6,311,152 | 6,612,141 | 6,311,152 | 6,612,141 |

29. Financial risk management objectives and policies (cont)

At 31 December 2021, the consolidated entity had the following exposure to Singapore \$ foreign currency:

| | Consolidated | |
|------------------------------|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| Financial assets | | |
| Cash and cash equivalents | 1,024,911 | 138,926 |
| Trade and other receivables | 1,469,650 | 61,972 |
| | 2,494,561 | 200,268 |
| Financial liabilities | | |
| Trade and other payables | 320,748 | 83,566 |
| Lease liabilities | 1,081,129 | 91,485 |
| | 1,401,877 | 175,051 |
| Net exposure | 1,092,684 | 25,217 |

All Singapore \$ denominated financial instruments were translated to A\$ at 31 December 2021 at the exchange rate of 1.0207 (2020: 1.0187).

At 31 December 2021 and 2020, 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 Higher/(Lower) | | Equity Higher/(Lower) | |
|---|-----------------------------------|------------|--------------------------|------------|
| | 2021 \$ | 2020 \$ | 2021 \$ | 2020 \$ |
| Consolidated | | | | |
| AUD/SING +10% | 93,834 | (2,128) | 93,834 | (2,128) |
| AUD/SING -5% | (23,263) | 569 | (23,263) | 569 |

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 directors 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 consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties.

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

29. Financial risk management objectives and policies (cont)

(d) Liquidity risk management

The consolidated entity or group's approach to managing liquidity risk 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, which has built an appropriate risk management framework for the management of the consolidated entity's short, medium and long term funding and liquidity requirements. The consolidated entity manages liquidity by maintaining adequate cash reserves, continuously monitoring forecast and actual cash flows and managing the maturity profiles of financial assets.

Liquidity and interest tables

The following tables detail the consolidated entity'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 consolidated entity can be required to pay. The table includes both interest and principal cash flows.

| Consolidated | Weighted average effective interest rate % | Less than 1 month \$ | 1-3 months \$ | 3 months to 1 year \$ | 1-5 years \$ |
|-----------------------------|--|----------------------|---------------|-----------------------|--------------|
| 2021 | | | | | |
| Borrowings | 9% | | | 34,448,384 | |
| Trade payables and accruals | - | 8,449,530 | 10,138,708 | 16,782,525 | - |
| 2020 | | | | | |
| Trade payables and accruals | - | 6,146,264 | 7,324,987 | 12,207,759 | - |

The following tables detail the consolidated entity'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/Consolidated entity anticipates that the cash flow will occur in a different period.

29. Financial risk management objectives and policies (cont)

| Consolidated | Weighted average effective interest rate % | Less than 1 month \$ | 1-3 months \$ | 3 months to 1 year \$ | 1-5 years \$ |
|---------------------------------|--|----------------------|---------------|-----------------------|--------------|
| 2021 | | | | | |
| Non-interest bearing | | | | | |
| Cash and cash equivalent | - | 43,475,826 | - | - | - |
| Receivables | - | 16,867,521 | 5,458,791 | 64,801 | - |
| Contract asset | - | - | - | 106,843,848 | 22,093,130 |
| Fixed interest rate instruments | 0.04% | 15,784,829 | - | - | - |
| | | 76,128,176 | 5,458,791 | 106,908,649 | 22,093,130 |
| 2020 | | | | | |
| Non-interest bearing | | | | | |
| Cash and cash equivalent | - | 5,771,383 | - | - | - |
| Receivables | - | 17,171,569 | 3,903,270 | 13,268,299 | 2,063,782 |
| Contract asset | - | - | - | 124,532,902 | 13,650,032 |
| Fixed interest rate instruments | 0.08% | 60,166,131 | - | - | - |
| | | 83,109,083 | 3,903,720 | 137,801,201 | 15,713,814 |

(e) Price risk

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

29. Financial risk management objectives and policies (cont)

(f) Categories of financial assets and liabilities

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| Financial assets | | |
| Amortised cost | | |
| Cash and cash equivalents | 59,260,655 | 65,933,499 |
| Trade and other receivables | 23,533,145 | 37,874,583 |
| Contract asset | 128,296,529 | 137,897,050 |
| Security deposits | 28,140,759 | 16,671,414 |
| Loan to associate | 2,513,380 | 2,391,940 |
| Total at amortised cost | 241,744,468 | 260,768,486 |
| Current | 189,637,648 | 226,277,202 |
| Non-current | 52,106,820 | 34,491,284 |
| Financial liabilities | | |
| Interest bearing loans and borrowings | | |
| Secured borrowings | 34,448,384 | - |
| Lease liabilities | 30,023,866 | 21,107,973 |
| Total interest bearing loans and borrowings | 64,472,250 | 21,107,973 |
| Current | 39,608,231 | 3,442,031 |
| Non-current | 24,864,019 | 17,665,942 |
| Debt instruments at amortised cost | | |
| Trade and other payables | 43,036,517 | 52,235,653 |
| Provisions | 21,427,355 | 24,405,826 |
| Total debt instruments at amortised cost | 64,463,872 | 76,641,479 |
| Current | 57,214,981 | 67,334,727 |
| Non-current | 7,248,891 | 9,306,752 |

(g) Commodity price risk

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

30. Details of associates

| | |
|--|--|
| Name of Entity: | AEI Air (Holdings) Limited |
| Place of incorporation: | United Kingdom |
| Principal place of business: | 1 Kings Ride Park Ascot Berkshire SL5 8AP UK |
| Principal activity: | Defence products |
| Deemed percentage holding: | The consolidated entity holds unsecured convertible notes, which are convertible into shares representing a 49% equity interest. |
| Aggregate share of net profits/ (losses) | Nil - The investment in the associate is debt in nature and therefor the consolidated entity does not have a share in any profit/(loss). |

Please refer to Note 10 for additional information.

The above associate is accounted for using the policy outlined in Note 1(z).

31. Segment information

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

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

Product and Services within each Segment

Space Systems

EOS Space Systems has a range of ground products available to support the burgeoning Australian and international space markets. This includes significant investments into passive optical and laser sensing equipment at both its Mt Stromlo and Learmonth sites, which ideally positions the company to be a major contributor to the next generation of space tracking.

EOS also provides manufacturing and supply of various telescopes and dome enclosures for customers around the world. EOS Space Systems astrometric products are the equipment of choice for providing reliable and high-quality optical systems under demanding environmental conditions.

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.

Communication Systems

EOS specialises in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world. Developments in EOS laser technology has opened aligned markets in space optical communications and various high power laser applications. Several large government programs are currently undergoing procurement activities in this area which have the opportunity to transform the business.

31. Segment information (cont)

| | Consolidated | |
|--|---------------------------|---------------------------|
| | 31 December 2021 \$ | 31 December 2020 \$ |
| Segment Revenues | | |
| Communications | 23,295,268 | 19,530,971 |
| Space | 4,519,904 | 4,304,097 |
| Defence | 184,515,476 | 156,347,298 |
| Total of all segments | 212,330,648 | 180,182,366 |
| Segment Results | | |
| Communications | (21,183,809) | (2,518,270) |
| Space | (3,887,734) | 1,000,140 |
| Defence | 24,736,666 | (24,824,330) |
| Total of all segments | (334,877) | (26,342,460) |
| Unallocated holding company costs | (4,275,797) | (3,558,590) |
| (Loss)/ Profit before income tax expense | (4,610,674) | (29,901,050) |
| Income tax benefit/ (expense) | (9,230,936) | 4,693,154 |
| (Loss) for the year | (13,841,610) | (25,207,896) |

The revenue reported above represents revenue from external customers. During the period there were intersegment sales of \$1,795,263. There were no discontinued operations during the period.

The consolidated entity had two customers who each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment and provided combined revenue of \$133,889,632.

31. Segment information (cont)

Segment Assets and Liabilities

| | Assets | | Liabilities | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2021 | 31 December 2020 | 31 December 2021 | 31 December 2020 |
| | \$ | \$ | \$ | \$ |
| Communications | 60,571,113 | 32,432,251 | 29,326,721 | 13,836,505 |
| Space | 5,664,758 | 4,806,956 | 4,525,401 | 2,380,589 |
| Defence | 304,454,687 | 317,536,577 | 95,084,000 | 81,569,094 |
| Total all segments | 370,690,558 | 354,775,784 | 128,936,122 | 97,786,188 |
| Unallocated cash and security deposit | 87,401,414 | 82,604,913 | - | - |
| Consolidated | 458,091,972 | 437,380,697 | 128,936,122 | 97,786,188 |

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

Other Segment Information

| | Depreciation, impairment and amortisation of segment assets | | Acquisition of segment assets | |
|------------------------|--|---------------------|-------------------------------|---------------------|
| | 31 December 2021 | 31 December 2020 | 31 December 2021 | 31 December 2020 |
| | \$ | \$ | \$ | \$ |
| Communications | 6,274,637 | 3,425,588 | 21,782,084 | 5,718,871 |
| Space | 429,770 | 61,084 | 118,264 | 2,313,561 |
| Defence | 3,830,211 | 4,387,324 | 11,103,692 | 16,521,895 |
| Total all segments | 10,534,618 | 7,873,996 | 33,004,040 | 24,554,327 |
| Unallocated management | 3,017,528 | 1,683,610 | - | - |
| Consolidated | 13,552,146 | 9,557,606 | 33,004,040 | 24,554,327 |

31. Segment information (cont)

Information on Geographical Segments

31 December 2021

| Geographical Segments | Revenue from External Customers \$ | Segment Assets* \$ | Acquisition of Segment Assets \$ |
|------------------------------------|---|--------------------------|---|
| Australasia | 127,885,297 | 82,939,853 | 11,481,373 |
| Middle East - United Arab Emirates | 71,761,229 | 1,765,419 | 130,763 |
| Middle East - other | 33,476 | - | - |
| North America | 7,529,526 | 31,961,982 | 21,391,904 |
| Europe | 5,121,120 | 2 | - |
| Total | 212,330,648 | 116,667,256 | 33,004,040 |

31 December 2020

| Geographical Segments | Revenue from External Customers \$ | Segment Assets* \$ | Acquisition of Segment Assets \$ |
|------------------------------------|---|--------------------------|---|
| Australasia | 52,631,195 | 68,913,417 | 17,697,790 |
| Middle East - United Arab Emirates | 107,816,575 | 2,482,860 | 486,856 |
| Middle East - other | 1,345,322 | - | - |
| North America | 10,293,815 | 12,473,769 | 6,369,681 |
| Europe | 8,095,459 | 1 | - |
| Total | 180,182,366 | 83,870,047 | 24,554,327 |

*Segment Assets reflects the requirements of AASB 8.33 (b) and reflect only non-current assets other than financial instruments and deferred tax assets.

| | 31 December 2021 \$ | 31 December 2020 \$ |
|--|---------------------------|---------------------------|
| 32. Parent entity disclosure | | |
| Financial position | | |
| Assets | | |
| Current assets | 7,951,125 | 53,442,438 |
| Non-current assets | 264,975,814 | 195,314,394 |
| Total assets | 272,926,939 | 248,756,832 |
| Liabilities | | |
| Current liabilities | 35,977,498 | 1,412,877 |
| Non-current liabilities | - | - |
| Total liabilities | 35,977,498 | 1,412,877 |
| Net assets | 236,949,441 | 247,343,955 |
| Equity | | |
| Issued capital | 413,727,547 | 413,479,003 |
| Reserves | 13,390,414 | 10,526,740 |
| (Accumulated losses) | (190,168,520) | (176,661,788) |
| Total equity | 236,949,441 | 247,343,955 |
| Financial performance | | |
| (Loss) for the period | (13,506,732) | (31,789,014) |
| Other comprehensive income | - | - |
| | (13,506,732) | (31,789,014) |
| Guarantees entered into by the parent entity in relation to the debts of its subsidiaries | | |
| Guarantee provided under the deed of cross guarantee | 108,706,167 | 89,888,344 |

Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly owned subsidiaries. Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, EM Solutions Pty Limited entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

33. Contingent liabilities and commitments

- (a) 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 consolidated entity.
- (b) The consolidated entity executed an offset agreement in relation to an overseas defence contract for an amount of US\$16,133,925 (A\$22,219,579) secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$3,226,785 (A\$4,443,916) and a fixed and floating charge over the assets of the consolidated entity.
- (c) The consolidated entity maintains a performance bond for US\$31,635,147 (A\$43,567,801) in relation to an overseas defence sector contract. The performance bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$12,654,055 (A\$17,427,116) and a fixed and floating charge over the assets of the consolidated entity.
- (d) The consolidated entity maintains a performance bond for US\$3,670,000 (A\$5,054,310) in relation to a spectrum licence granted by the US Federal Communications Commission (FCC). This bond is established through a surety bond with RLI Insurance Company, fully secured by a cash security deposit.
- (e) Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited, pursuant to ASIC Corporations (wholly owned companies) Instrument 2016/785 and relieved from the requirement to prepare and lodge an audited financial report. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.
- (f) Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, has entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to GBP2,000,000 as a series of convertible notes which will entitle Electro Optic Systems Pty Limited to convert these convertible notes, when advanced in full, to acquire 49% of the equity in AEI Air (Holdings) Limited. Electro Optic Systems Pty Limited has also entered into a Put and Call Option Deed with the vendors of AEI Air (Holdings) Limited to acquire a further 49% from the vendors of AEI Air (Holdings) Limited based on a profitability formula over the period from 1 January 2019 to 31 December 2022 and meeting various milestones. The Put and Call Option Deed also includes provisions for Electro Optic Systems Pty Limited to make vendor loans of up to GBP1,714,500 to the vendors of AEI Air (Holdings) Limited which are fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option is exercised the loans are able to offset the exercise price on settlement. At the date of this report GBP1,500,000 has been advanced under the Unsecured Convertible Note Deed and no amounts have been advanced to the vendors under the Put and Call Option Deed at their request. Electro Optic Systems Pty Limited holds no direct equity in AEI Air (Holdings) Limited at the date of this report.

The consolidated entity maintains cash deposits with banks and financial institutions as security for various performance and rental bonds. The detail of such cash deposits is as per below:

| | Consolidated | |
|---|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Offset bond for a defence contract | 4,443,916 | - |
| Performance bond for a defence contract | 17,427,116 | 12,313,468 |
| Performance bond for SpaceLink's satellite launch | 5,054,310 | 3,464,181 |
| Rental bonds | 1,215,417 | 893,765 |
| | 28,140,759 | 16,671,414 |

34. Subsequent events

On 23 February 2022 SpaceLink Corporation ('SpaceLink'), a wholly owned subsidiary of the consolidated entity, executed two agreements with OHB System AG ('OHB'):

- (a) A Deed of Agreement which finalised the amounts due to OHB under the Authority to Proceed contract which was entered into between the parties on 15 October 2021 and ran to 14 December 2021.

An amount of US\$3,000,000 (A\$4,131,588) has been recorded as a liability in other payables as at 31 December 2021 representing the full and final settlement of all amounts due to OHB for that period.

The amount of US\$3,000,000 (A\$4,131,588) has also been recorded as an addition to capital work in progress as at 31 December 2021, representing the value of the foreground IP and materials developed by or procured by OHB using these funds and transferred to SpaceLink.

- (b) A Heads of Agreement which sets out the contractual relationship between SpaceLink and OHB going forward relating to the development of Block-1 of the SpaceLink Satellite Data Relay Constellation.

Under this Agreement SpaceLink has agreed to:

- i. Pay OHB costs incurred by OHB between 1 January 2022 and 24 February 2022 with third party vendors in respect of potential deliverables for inclusion in Block-1 activity which has now been deferred. The amount payable is up to US\$7,000,000 in aggregate.
- ii. Offer OHB an agreement to undertake Risk Management Activities in relation to Block-1 over a 15-month period with such agreement to be on a cost-plus basis and initially funded by SpaceLink to US\$5,000,000.

On 17 March 2022 EOS announced that it had engaged Greenhill & Co. as financial adviser to assist in undertaking a strategic review, including ensuring all feasible funding options are explored and assessed in the context of the broader range of strategic options for EOS. As at the date of this report no outcome from the strategic review has been determined.

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.

35. 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, Middle East, Singapore and Germany.

Registered Office

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USA Operations Virginia

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United States

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Abu Dhabi, UAE
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Fax: +971 2 492 7110

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 28 March 2022 the following substantial shareholders were registered:

| | Ordinary Shares | Percentage of total Ordinary shares |
|-------------------------------|-----------------|-------------------------------------|
| EOS Loan Plan Pty Ltd | 12,009,375 | 7.96% |
| Citicorp Nominees Pty Limited | 8,690,548 | 5.76% |

VOTING RIGHTS

At 25 March 2022 there were 18,881 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.

DISTRIBUTION OF SHAREHOLDINGS

At 28 March 2022 the distribution of shareholdings were:

| Range | Ordinary Shareholders | Number of Shares | Percentage of Shares |
|------------------|-----------------------|------------------|----------------------|
| 1-1,000 | 10,386 | 4,434,889 | 2.94 |
| 1,001 - 5,000 | 5,816 | 14,420,337 | 9.56 |
| 5,001 - 10,000 | 1,372 | 10,313,201 | 6.83 |
| 10,001 - 100,000 | 1,177 | 30,988,608 | 20.53 |
| 100,001 and over | 130 | 90,757,194 | 60.14 |
| | 18,881 | 150,914,229 | 100.00% |

There were 2,493 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 28 March 2022 the 20 largest ordinary shareholders held 43.29% of the total issued fully paid quoted ordinary shares of 150,914,229.

| Rank | Shareholder | Fully Paid Ordinary Shares | Percentage of Total |
|------|---|----------------------------|---------------------|
| 1 | EOS Loan Plan Pty Ltd | 12,009,375 | 7.96% |
| 2 | Citicorp Nominees Pty Limited | 8,690,548 | 5.76% |
| 3 | Washington H Soul Pattinson & Company | 7,225,946 | 4.79% |
| 4 | HSBC Custody Nominees (Australia) Limited | 5,202,995 | 3.45% |
| 5 | N & J Properties Pty Ltd | 4,348,530 | 2.88% |
| 6 | JP Morgan Nominees Australia Pty Limited | 3,763,482 | 2.49% |
| 7 | Brazil Farming Pty Ltd | 2,832,129 | 1.88% |
| 8 | Technology Transformations Pty Limited | 2,758,662 | 1.83% |
| 9 | UBSs Nominees Pty Ltd | 2,594,603 | 1.72% |
| 10 | CS Third Nominees Pty Limited | 2,242,531 | 1.49% |
| 11 | BNP Paribas Nominees Pty Ltd | 2,100,785 | 1.39% |
| 12 | BNP Paribas Nominees Pty Ltd | 1,860,910 | 1.23% |
| 13 | Buttonwood Nominees Pty Ltd | 1,780,570 | 1.18% |
| 14 | Capitol Enterprises Limited | 1,550,000 | 1.03% |
| 15 | A & D Wire Limited | 1,457,276 | 0.97% |
| 16 | Brispot Nominees Pty Ltd | 1,301,090 | 0.86% |
| 17 | Technology Investments Pty Ltd | 1,216,477 | 0.81% |
| 18 | Bundarra Trading Company Pty Ltd | 1,005,173 | 0.67% |
| 19 | Mr Peter Donald Bradley | 700,000 | 0.46% |
| 20 | KAM Superannuation Fund Pty Ltd | 693,000 | 0.46% |
| | | 65,334,082 | 43.29% |

CORPORATE DIRECTORY

Directors

Lt Gen Peter Leahy AC (Chairman)
 Dr Ben Greene (Chief Executive Officer)
 Air Marshal Geoffrey Brown AO
 The Hon Kate Lundy
 Mr David Black
 Ms Deena Shiff

Company Secretary

Mr Morgan Bryant

Registered Office

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ACN Number

092 708 364

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 Sydney NSW 1115

Telephone 1300 855 080 or
 613 9611 5711 outside Australia

Facsimile 1300 137 341

Auditors

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 8 Brindabella Circuit
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 GPO Box 823
 Canberra, ACT, 2601
 Australia



TEOS