

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ACN 092 708 364

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2013

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE DIRECTORY

Directors

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Mr Ian Dennis
Mr Mark Ureda
Lt Gen Peter Leahy AC
Mr Kevin Scully

Company Secretary

Mr Ian Dennis

Registered Office

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

Telephone:- 612 9233 3915
Facsimile:- 612 9232 3411

Web site www.eos-aus.com

Share Registry

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Australia
GPO Box 7045
Sydney NSW 1115

Telephone:- 1300 855 080 or 613 9611 5711 outside Australia
Facsimile:- 1300 137 341

Auditors

Deloitte Touche Tohmatsu
Chartered Accountants
Eclipse Tower
Level 19
60 Station Street
Parramatta NSW 2150
Australia

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS

1. RESULTS FOR FULL-YEAR ENDING 31 DECEMBER 2013

The consolidated entity earned a net profit during the year of \$1,562,746 (2012: \$10,181,971 loss) on revenues of \$29,882,393 (2012: \$21,919,748).

Net cash used by operating activities was \$2,646,482 (2012 - \$3,784,501 provided by). As at 31 December 2013, the consolidated entity had cash of \$4,048,005 (2012 - \$6,686,194) of which \$97,000 (2012 - \$400,393) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted when the contract is concluded or renegotiated.

These results are broadly in line with management expectations. The expected break-even result was improved by a small increase in revenue late in 2013 but otherwise the full year was executed to a management plan.

The overall net profit was 5.2% of revenue compares favourably to the significant loss from the previous year. EOS undertook a significant restructure in 2012 to permit break-even operations on reduced revenue of \$30 million, and the result confirms the outcome of that restructure.

It is also noteworthy that for the first time both the defence systems sector and the space sector were profitable. The respective profit levels bear little relation to the outlook for these sectors, but the results do indicate improving execution of contracts and programs in both sectors. This will be particularly important going forward.

2. DEFENCE SYSTEMS SECTOR

This sector develops, markets, manufactures and supports remote weapon systems [RWS] and related products in global markets. Key developments during 2013 relate to markets, partnerships, and new products.

Markets

Most EOS customers are undergoing dual crises in defence spending, as they face severe budget issues at the same time as the high and inescapable costs associated with drawing down forces from active theatres. In the period 2012-2016 deliveries of new RWS from all sources to EOS customers in US, NATO and Australia are now expected to be less than 10% of the aggregate number delivered in the preceding 5 years by all providers. This tightening is more severe than expected.

Recovery of the RWS market from 2016 will largely be through new products and new technology. The promise of new capabilities is contributing to the decline of markets for current products as customers plan future outlays around new technology and capabilities. EOS is well placed here because it has new technology in hand, and is closely linked to the future requirements of its key customers through collaborative development programs.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

These factors indicate the RWS market is undergoing fundamental and irreversible change. Competition has been very strong in the past few years, but can be expected to thin as the years of tight market conditions continue and the high cost of new technology and low production rates eat into industry reserves. Industry consolidation is likely and the competitive landscape will change. With its strong customer loyalty and co-funding for advanced technology programs EOS expects to emerge as a market leader from this difficult period for the RWS industry.

For EOS the escalation of budget problems in its home market in Australia has been problematic, and the company expects that no new RWS deliveries will be made to Australia during the next few years.

Growth markets for RWS are currently limited to Asia and the Middle East. Although customer procurement activity continued in these markets in 2012-13 and EOS has achieved some success, these programs will not require production before 2015.

The RWS market is in transition through a prolonged and severe reduction in customer budgets and requirements. The market will not recover to its prior state, but will emerge from 2016 with demands for new technology and products that most providers will not have been able to invest in due to reduced revenue and profits. This situation presents both operational threats and strategic opportunities for EOS.

New Products

EOS is committed to two key efforts to develop new RWS products and technology:

- A. On 26 June 2013 EOS announced a \$3.4 million award from the Australian Defence Force for the development of next-generation RWS for potential ADF future requirements. The award was made pursuant to RWS being classified as a Priority Industry Capability by the Department of Defence. Other customers are also contributing towards similar developments for their own future needs. This effort is on track to produce next-generation products by 2016.

In addition, product upgrades will be released during 2014 and 2015 to provide early access to new technology through existing products. A new model of the EOS R-400 RWS, designated R-400S, has been developed. This will field a lightweight 30 mm canon for special applications requiring light weapon systems with firepower previously available only on heavy platforms.

- B. EOS is also applying its RWS technology to the development of remote unmanned turrets. In 2006 EOS joined with a partner to develop a turret to provide unprecedented 30-40 mm canon firepower to armoured vehicles. This turret has met all performance goals and is now undergoing pre-production trials with production from 2016, subject to continued customer funding. The company expects to achieve strong market share in this US\$8 billion segment notwithstanding the emergence of several strong competitors.

REVIEW OF OPERATIONS (cont)

Each of these efforts has financial support and participation from EOS' customers. These joint programs give EOS good insight to the scale and timing of the recovery in customer funding for new RWS technology.

Strategic Partnerships

The emphasis on executing business through strategic partners increased in 2013:

- A. EOS announced on 30 October 2013 that it had established an advanced RWS support facility in Singapore in collaboration with Singapore Technologies Kinetics [STK]. This is the latest step in a long-standing collaboration with STK. The facility will allow RWS to be repaired from a base centrally located in South East Asia and with excellent transport and communications links to current and potential customers in that region.
- B. In Korea EOS is teamed with Hyundai-Wia whose Korean plants can now produce up to 70% of each RWS required for the expanding Korean market. EOS is collaborating with Hyundai to meet new RWS requirements arising from major defence contracts awarded to Hyundai as a prime contractor during 2013.
- C. EOS has identified a potential strategic partner in the Middle East with strong market presence and substantial current requirements for RWS. EOS has exchanged written expressions of intent with that entity relating to the potential establishment of a RWS production site in the Middle East in 2015.

3. SPACE SECTOR

This sector develops long-range space sensors to acquire unique data in space to support the provision by EOS of data and/or services in global space markets. The business model relates to applications of the data. Sensors are not normally sold but deployed and operated by EOS or its strategic partners.

Space Data

During 2013 EOS completed the automation of operations for its space tracking sensors as well as a wide range of operational testing. Formal completion of testing spilled into Q1 2014 but all tests have been successfully completed. These developments clear the way for commercialisation of the technology which has now commenced.

This is a major milestone in the long development and testing program. EOS space customers have contributed over \$10 million towards the testing and performance improvement of EOS' current space sensors. EOS' space sensors can now be cost-effectively reproduced to meet the data requirements of space customers.

REVIEW OF OPERATIONS (cont)

Data acquisition operations are expected to commence from 1 July 2014. EOS has been offered new contracts for data delivery and is on track to complete those negotiations and execute the contracts before 1 July 2014.

The company's ability to undertake sensor deployment is a pre-requisite to securing additional space data contracts. EOS believes it has appropriate arrangements in place to fund at least the initial stages of space infrastructure deployment in 2014 and 2015. These sensor deployment arrangements are sufficient to support all planned data marketing activities through 2014 and may be extendable to cover further expansion of the business.

EOS is cautiously expanding its resources and capabilities in space as it transitions from development to commercial operations in 2014 and 2015.

Space CRC and Precinct

With the maturing of the space data business, EOS is segregating its research and development activities from its commercial operations. EOS is now sufficiently confident of its commercial sensor program that it is sharing its background technology towards the solution of major problems for space industry and society, such as the space debris threat.

EOS has led a team of the world's major space research entities which has won Commonwealth government funding support for a Cooperative Research Centre for Space Environment Management. CRC funding from all participants will be around \$60 million over 5 years from 2014, including \$20 million from the Commonwealth. The CRC will research technological solutions for major problems for space industry and society in general, such as the space debris threat. By pooling funds and resources through the CRC, participants can more quickly achieve research objectives with benefits to both participants and the wider community. In the case of space there is a significant premium on accelerating research outcomes.

EOS will undertake leadership of this CRC program pursuant to a funding offer from the Australian government for this CRC. This will be a completely separate research activity from EOS commercial space activities but will likely impact those commercial activities in later years when more advanced technologies will be required.

EOS has also led a large group of space industry entities in seeking funding for the establishment of a "Space Precinct" at Mount Stromlo. This initiative was also successful but the level of government funding is uncertain at this time. The Precinct is intended to draw out synergies from among industry and publicly funded entities engaged in space, to create more collective opportunities and foster more cost-effective solutions.

Partnerships

As in the Defence Systems sector, partnerships are the preferred basis for expansion. For the Space Systems sector, these partnerships are focussed on both technology development and commercial exploitation.

REVIEW OF OPERATIONS (cont)

EOS continues to work closely with its academic partners. EOS has long-term alliances with the Australian National University [ANU] and the Royal Melbourne Institute of Technology for technology development for space applications. These collaborations are making good progress towards our collective technical objectives.

EOS and ANU also continue to co-develop new technology in adaptive optics.

During 2013 EOS terminated an exclusive agreement with Northrop Grumman Corporation relating to certain collaborative space activities, to allow each organisation to pursue those activities individually or through new partnerships.

EOS also maintains agreements with European and US aerospace entities to facilitate customer access to EOS space data in those markets. New strategic agreements with major aerospace entities globally are in negotiation now that the space data business is moving to commercialisation.

4. SUMMARY AND OUTLOOK

During 2013 the company has consolidated and entrenched the major structural reforms implemented in 2012. The key financial benefit of these changes was forecast to be a reduction in fixed costs of at least \$5.5 million, and this target was achieved in the first full year of implementation in 2013. Staff numbers reduced to 94 at the end of the year compared to 104 at the end of the previous year.

This significant saving combined with careful execution of a modest revenue program were the key elements in the delivery of a satisfactory result in 2013.

The full-year result is marginally better than the management expectation at the outset of 2013 due to a small increase in revenue over expectations late in 2013. Company operations were conducted largely as planned and expected by management.

In 2013 both EOS business sectors were profitable, for the first time. However the outlook for the company's two sectors differs going forward.

The outlook for space sector is positive. The significant investments made by EOS and its customers in recent years to refine space sensor performance have been successful and notwithstanding severe constraints in funds in both government and commercial customer segments, EOS expects its space sector to be profitable in 2014 and that its revenue will grow in coming years. In recent years demand has increased for EOS' planned space products and services.

The outlook for defence systems sector is mixed. In the short term [2014] the outlook is similar to recent years, where EOS achieved sufficient revenue to sustain its capabilities and position for the future. The longer term outlook for this sector is more promising, with new technology and products emerging from 2016. Strong ongoing customer investment in those developments, combined with success in meeting program objectives, gives EOS confidence they will be contracted for delivery from 2016 and restore this sector's revenue base.

However the confirmed order backlog for defence systems sector product deliveries going forward are substantially lower than customary. Less than 12 months of order backlog is now

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

held, and this will erode during 2014 unless new orders are obtained. Although customer requirements can emerge rapidly, EOS has previously held sufficient long term orders to ensure this sector's financial performance for up to two years going forward. This shortfall in medium term orders is a new challenge for the company, but EOS' technology development and product enhancement programs remain well funded by customers. Those technology programs are a strong foothold on future market position and the longer term prospects for this EOS business are strong.

The RWS industry will probably not survive more lean years to 2016 without change. Expectations of a market recovery from 2016 for those providers with new products and technology will likely trigger industry consolidation. EOS expects to play a role in any consolidation of the RWS industry because it is already well placed to timely meet future market expectations.

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

As set out in Note 1(a) the financial statements have been prepared on the basis that the company and the consolidated entity are going concerns, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Due to the uncertainties disclosed in Note 1(a) the audit opinion includes an emphasis of matter paragraph regarding going concern.

Ben Greene

Chief Executive Officer

18 March 2014

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

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 2013. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Name	Particulars
Fred Bart	Chairman (Age 59). He has been Chairman and Director of numerous public and private companies since 1980, specialising in manufacturing, property, technology and cancer research through the use of immunotherapy. He is a member of the Australian Institute of Company Directors and is a member of the Remuneration Committee. Appointed to the Board on 8 May 2000.
Dr Ben Greene	BE (Hons), Phd in Applied Physics (Age 63) is the Chief Executive Officer of Electro Optic Systems. Dr Greene was involved in the formation of Electro Optic Systems. He is published in the subject areas of weapon system design, laser tracking, space geodesy, quantum physics, satellite design, laser remote sensing, and the metrology of time. Dr Greene is a member of Australia's Prime Ministers Science, Engineering and Innovation Council (PMSEIC), CEO of the Cooperative Research Centre for Space Environment Management and Deputy Chair of the Western Pacific Laser Tracking Network (WPLTN). Appointed to the Board on 11 April 2002.
Ian Dennis	BA, C.A. (Age 56) is a Chartered Accountant with experience as director and secretary in various public listed companies and unlisted technology companies in Australia and overseas. He has been involved in the investment banking industry and stockbroking industry for the past twenty five years. Prior to that, he was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 8 May 2000. He is a member of the Australian Institute of Company Directors and is a member of the Audit Committee and Remuneration Committee. He is also company secretary of Electro Optic Systems Holdings Limited.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

- | | |
|-----------------------|--|
| Mark Ureda | Non-executive director (Age 59). Appointed to the Board on 28 April 2005. Mark was vice president, Strategy and Technology for Northrop Grumman Corporation, a global defence company until August 2010. Mark is now Vice President and General Manager of the Harman Professional Loudspeaker Group. Mark received a bachelor's degree in Engineering from the University of California at Los Angeles, a master's degree in Acoustics from the Pennsylvania State University and a master's degree in Finance from the UCLA Graduate School of Management. |
| Lt Gen Peter Leahy AC | Non-executive director (Age 61). Appointed to the Board on 4 May 2009. Peter Leahy AC retired from the Australian Army in July 2008 as a Lieutenant General in the position of Chief of Army. Among his qualification he holds a BA (Military Studies), a Master of Military Arts and Science and is a member of the Australian Institute of Company Directors. He is a Professor and the foundation Director of the National Security Institute at the University of Canberra. He is a director of Codan Limited, the Kokoda Foundation, a member of the Defence South Australia Advisory Board and Chairman of the Red Shield Appeal in the ACT and the charity Soldier On. He is Chairman of the Audit Committee. |
| Kevin Scully | Non-executive director (Age 56). Appointed to the Board on 19 September 2011. Kevin Scully has more than 30 years of experience in equities research and analysis, corporate advisory and related matters, having worked for more than 12 years in various positions such as the head of research and director of Schrodgers and the Netresearch group (which he founded). Kevin is an advisor to two regulatory authorities of the Singaporean Government (Commercial Affairs Department and the Monetary Authority of Singapore) since 1999. In March 2014 he was appointed Adjunct Professor in the School of Human Development and Social Services at SIM University. He is a member of the Audit Committee. |

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Directorships of other listed companies

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

Name	Company	Period of directorship
Fred Bart	Audio Pixels Holdings Limited	5 September 2000 to date
Ian Dennis	Audio Pixels Holdings Limited	5 September 2000 to date
Lt Gen Peter Leahy AC	Codan Limited	19 September 2008 to date
Kevin Scully	PNE Micron Holding Limited	11 April 2011 to date

Principal activities

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

The company is listed on the Australian Securities Exchange.

Review of operations

A detailed review of operations is included on pages 3 to 8 of this financial report.

Changes to the state of affairs

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

Subsequent events

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Future developments

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

Please see the review of operations for further details.

Environmental Regulations

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

Dividends

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

Share Options

Share options granted to directors and executives

During and since the end of the financial year no share options were granted to any directors of the company or consolidated entity as part of their remuneration. On 10 December 2009 the Company issued 1,800,000 options to staff including the executives listed in the Remuneration Report under the terms of the Employee Share Option Plan. These options had an exercise price of \$1.30 and expired on 8 December 2013. No options have been issued to executives since the end of the financial year.

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

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

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, 16 Board meetings, 2 audit committee meetings and no Remuneration committee meetings were held.

	Board of directors		Audit committee		Remuneration committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	16	16	-	-	-	-
Dr Ben Greene	16	16	-	-	-	-
Mr Ian Dennis	16	16	2	2	-	-
Mr Mark Ureda	16	16	-	-	-	-
Lt Gen Peter Leahy AC	16	14	2	2	-	-
Mr Kevin Scully	16	16	2	2	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Directors' shareholdings

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

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

Remuneration report (Audited)

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

Mr Fred Bart (Chairman, Non executive director)
Dr Ben Greene (Chief Executive Officer and director)
Mr Ian Dennis (Non-executive director)
Mr Mark Ureda (Non-executive director)
Lt Gen Peter Leahy AC (Non-executive director)
Mr Kevin Scully (Non-executive director)
Mr Mark Bornholt (Chief Executive Officer of Defence Systems)
Dr Craig Smith (Chief Executive Officer of EOS Space Systems Pty Limited)
Mr Scott Lamond (Chief Financial Officer – Electro Optic Systems Pty Limited)

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

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

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

Remuneration structure

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

Non-Executive Director remuneration

Objective

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

Structure

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

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

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

Executive Director and Senior Management remuneration

Objective

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Structure

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

Employment contracts

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

Director remuneration

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

2013	Short term		Post Employment	Equity	Other Long	Total
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	Term Benefits \$	\$
Mr Fred Bart	61,000	-	5,566	-	-	66,566
Dr Ben Greene*	370,032	20,054	33,476	-	-	423,562
Mr Ian Dennis#	157,500	-	3,422	-	-	160,922
Mr Mark Ureda	40,875	-	-	-	-	40,875
Lt Gen Peter Leahy AC	37,500	-	3,422	-	-	40,922
Mr Kevin Scully	40,875	-	-	-	-	40,875
	<u>707,782</u>	<u>20,054</u>	<u>45,886</u>	<u>-</u>	<u>-</u>	<u>737,722</u>
* Executive Director during the financial year # Includes fees for additional services provided of \$120,000 (2012: \$160,000)						

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

2012	Short term		Post Employment	Equity	Other Long	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Options \$	Term Benefits \$	\$
Mr Fred Bart	61,000	-	5,490	-	-	66,490
Dr Ben Greene*	439,994	28,726	37,177	-	-	505,897
Mr Ian Dennis	197,500	-	3,375	-	-	200,875
Mr Mark Ureda	40,875	-	-	-	-	40,875
Lt Gen Peter Leahy AC	37,500	-	3,375	-	-	40,875
Mr Kevin Scully	40,875	-	-	-	-	40,875
	817,744	28,726	49,417	-	-	895,887
* Executive Director during the financial year						

Executive remuneration

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)**Remuneration Report (cont)**

2012	Short term		Post Employment	Equity	Other Long	Total
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	Term Benefits \$	\$
Dr Craig Smith	210,000	-	18,900	18,152	-	247,052
Mr Mark Bornholt	210,000	-	18,900	-	-	228,900
Mr John Palisi **	80,324	-	2,326	-	-	82,650
Mr Scott Lamond **	167,556	-	15,080	3,630	-	186,266
Mr Hugo Keyner **	85,976	749	-	18,152	-	104,877
	<u>753,856</u>	<u>749</u>	<u>55,206</u>	<u>39,934</u>	<u>-</u>	<u>849,745</u>

** John Palisi, Scott Lamond and Hugo Keyner were executives for part of the financial year
(See Note 21)

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

No options were granted to, or exercised by any director or executive during 2012 or 2013 or since the end of the financial year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Elements of remuneration related to performance

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

Key management personnel option holdings

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)**Remuneration Report (cont)**

2012	Balance at 1/1/12	Granted as remuneration	(Lapsed)	Balance at 31/12/12	Balance vested at 31/12/12	Options vested during year
	No.	No.	No.	No.	No.	
Mr Fred Bart	-	-	-	-	-	-
Dr Ben Greene	-	-	-	-	-	-
Mr Ian Dennis	-	-	-	-	-	-
Mr Mark Ureda	-	-	-	-	-	-
Lt Gen Peter Leahy AC	-	-	-	-	-	-
Mr Kevin Scully	-	-	-	-	-	-
Mr Mark Bornholt	-	-	-	-	-	-
Dr Craig Smith	160,000	-	-	160,000	160,000	80,000
Mr John Palisi	160,000	-	(160,000)	-	-	-
Mr Scott Lamond	32,000	-	-	32,000	32,000	16,000
Mr Hugo Keyner	160,000	-	-	160,000	160,000	80,000

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)**Remuneration Report (cont)**

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

	31 December 2013 \$	31 December 2012 \$	31 December 2011 \$	31 December 2010 \$	31 December 2009 \$
Revenue	29,882,393	21,919,748	32,775,391	33,828,658	37,005,723
Net profit / (loss) before tax	1,562,746	(10,181,971)	180,188	3,175,142	2,436,249
Net profit/(loss) after tax	1,562,746	(10,181,971)	180,188	3,175,142	2,436,249

	31 December 2013 \$	31 December 2012 \$	31 December 2011 \$	31 December 2010 \$	31 December 2009 \$
Share price at start of year	0.30	0.55	1.35	1.05	0.41
Share price at end of year	0.42	0.30	0.55	1.35	1.05
Dividends paid	-	-	-	-	-

Audit Committee

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

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 10 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 23 of the annual report.

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

On behalf of the Directors



I A Dennis

Director

Dated at Sydney this 18 day of March 2014

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

18 March 2014

Dear Board Members

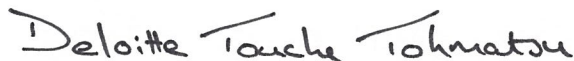
Electro Optic Systems Holdings Limited

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

As lead audit partner for the audit of the financial statements of Electro Optic Systems Holdings Limited for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants

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

Report on the Financial Report

We have audited the accompanying financial report of Electro Optic Systems Holdings Limited, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 26 to 105.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

- (a) the financial report of Electro Optic Systems Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity used net cash in operating activities of \$2,646,482 during the year ended 31 December 2013 (\$3,784,501 generated during the year ended 31 December 2012). This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's and the consolidated entity's ability to continue as going concerns and therefore whether they will be unable to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Electro Optic Systems Holdings Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



David Black
Partner
Chartered Accountants
Sydney, 19 March 2014

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' DECLARATION

The directors declare that:

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

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

On behalf of the Directors



I A Dennis
Director

Dated at Sydney this 18 day of March 2014.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated		Company	
		31	31	31	31
		December	December	December	December
		2013	2012	2013	2012
		\$	\$	\$	\$
Revenue	2	29,882,393	21,919,748	77,845	166,211
Changes in inventories of finished goods and work in progress		(1,031,378)	4,744,819	-	-
Raw materials and consumables used		(13,366,167)	(17,883,251)	-	-
Employee benefits expense	2(b)	(10,705,460)	(11,998,930)	(360,467)	(389,990)
Administration expenses		(2,420,883)	(2,723,142)	(343,404)	(394,804)
Amortisation of intangibles	2(b)	-	(131,519)	-	-
Finance costs	2(b)	(82,464)	(112,741)	-	-
Depreciation and amortisation of property, plant and equipment	2(b)	(211,807)	(1,886,926)	(197)	(657)
Impairment of intangibles	2(b)	-	(565,119)	-	-
Gain/(loss) on disposal of fixed assets	2(b)	43,891	4,603	(788)	-
Foreign exchange (losses)/gains	2(b)	507,604	(196,299)	5,617	772
Occupancy costs		(786,814)	(1,136,400)	-	-
(Provision for)/ Reversal of non-recovery of loan	2(b)	-	-	(1,161,923)	2,824,983
Provision for non-recovery of investment	2(b)	-	-	-	(204,209)
Other expenses		<u>(266,169)</u>	<u>(216,814)</u>	<u>-</u>	<u>-</u>
(Loss)/Profit before income tax benefit	2	1,562,746	(10,181,971)	(1,783,317)	2,002,306
Income tax benefit	4	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Loss)/Profit for the period	20	<u>1,562,746</u>	<u>(10,181,971)</u>	<u>(1,783,317)</u>	<u>2,002,306</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated		Company	
		31	31	31	31
		December	December	December	December
		2013	2012	2013	2012
		\$	\$	\$	\$
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Exchange differences arising on translation of foreign operations		<u>20,222</u>	<u>4,173</u>	<u>-</u>	<u>-</u>
Total comprehensive (Loss)/income for the period		<u>1,582,968</u>	<u>(10,177,798)</u>	<u>(1,783,317)</u>	<u>2,002,306</u>
(Loss)/Earnings per share					
Basic (cents per share)	3	2.7	(17.9)		
Diluted (cents per share)	3	2.7	(17.9)		

Notes to the financial statements are included on pages 34 to 105.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

		Consolidated		Company	
	Note	December 2013	December 2012	December 2013	December 2012
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	22	4,048,005	6,686,194	1,739,217	3,502,600
Trade and other receivables	6	3,069,803	1,874,896	5,979	26,983
Inventories	7	5,320,861	3,855,850	-	-
Other	8	<u>332,811</u>	<u>588,939</u>	-	-
TOTAL CURRENT ASSETS		<u>12,771,480</u>	<u>13,005,879</u>	<u>1,745,196</u>	<u>3,529,583</u>
NON-CURRENT ASSETS					
Property, plant and equipment	11	<u>461,305</u>	<u>538,106</u>	-	<u>985</u>
TOTAL NON-CURRENT ASSETS		<u>461,305</u>	<u>538,106</u>	-	<u>985</u>
TOTAL ASSETS		<u>13,232,785</u>	<u>13,543,985</u>	<u>1,745,196</u>	<u>3,530,568</u>
CURRENT LIABILITIES					
Trade and other payables	12	3,882,221	5,774,085	95,435	97,490
Borrowings	13	-	102,191	-	-
Provisions	14	<u>4,535,627</u>	<u>4,605,482</u>	-	-
TOTAL CURRENT LIABILITIES		<u>8,417,848</u>	<u>10,481,758</u>	<u>95,435</u>	<u>97,490</u>
NON-CURRENT LIABILITIES					
Borrowings	13	-	15,032	-	-
Provisions	14	<u>478,045</u>	<u>293,271</u>	-	-
TOTAL NON-CURRENT LIABILITIES		<u>478,045</u>	<u>308,303</u>	-	-
TOTAL LIABILITIES		<u>8,895,893</u>	<u>10,790,061</u>	<u>95,435</u>	<u>97,490</u>
NET ASSETS		<u>4,336,892</u>	<u>2,753,924</u>	<u>1,649,761</u>	<u>3,433,078</u>
EQUITY					
Issued capital	17	75,383,567	75,383,567	75,383,567	75,383,567
Reserves	19	7,797,978	7,777,756	7,727,803	7,727,803
Accumulated losses	20	<u>(78,844,653)</u>	<u>(80,407,399)</u>	<u>(81,461,609)</u>	<u>(79,678,292)</u>
TOTAL EQUITY		<u>4,336,892</u>	<u>2,753,924</u>	<u>1,649,761</u>	<u>3,433,078</u>

Notes to the financial statements are included on pages 34 to 105.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

Consolidated	Total	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve
	\$	\$	\$	\$	\$
2013					
Balance at 1 January 2013	<u>2,753,924</u>	<u>(80,407,399)</u>	<u>75,383,567</u>	<u>49,953</u>	<u>7,727,803</u>
Profit for the year	<u>1,562,746</u>	<u>1,562,746</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exchange differences arising on translation of foreign operations	<u>20,222</u>	<u>-</u>	<u>-</u>	<u>20,222</u>	<u>-</u>
Total comprehensive (loss)/income for the year	<u>1,582,968</u>	<u>1,562,746</u>	<u>-</u>	<u>20,222</u>	<u>-</u>
Balance at 31 December 2013	<u>4,336,892</u>	<u>(78,844,653)</u>	<u>75,383,567</u>	<u>70,175</u>	<u>7,727,803</u>
2012					
Balance at 1 January 2012	<u>12,727,513</u>	<u>(70,225,428)</u>	<u>75,383,567</u>	<u>45,780</u>	<u>7,523,594</u>
Loss for the year	<u>(10,181,971)</u>	<u>(10,181,971)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exchange differences arising on translation of foreign operations	<u>4,173</u>	<u>-</u>	<u>-</u>	<u>4,173</u>	<u>-</u>
Total comprehensive (loss)/income for the year	<u>(10,177,798)</u>	<u>(10,181,971)</u>	<u>-</u>	<u>4,173</u>	<u>-</u>
Recognition of share based payments	<u>204,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>204,209</u>
Balance at 31 December 2012	<u>2,753,924</u>	<u>(80,407,399)</u>	<u>75,383,567</u>	<u>49,953</u>	<u>7,727,803</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

Company	Total	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve
	\$	\$	\$	\$	\$
2013					
Balance at 1 January 2013	<u>3,433,078</u>	<u>(79,678,292)</u>	<u>75,383,567</u>	<u>-</u>	<u>7,727,803</u>
(Loss) for the year	<u>(1,783,317)</u>	<u>(1,783,317)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>(1,783,317)</u>	<u>(1,783,317)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2013	<u>1,649,761</u>	<u>(81,461,609)</u>	<u>75,383,567</u>	<u>-</u>	<u>7,727,803</u>
2012					
Balance at 1 January 2012	<u>1,226,563</u>	<u>(81,680,598)</u>	<u>75,383,567</u>	<u>-</u>	<u>7,523,594</u>
Profit for the year	<u>2,002,306</u>	<u>2,002,306</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>2,002,306</u>	<u>2,002,306</u>	<u>-</u>	<u>-</u>	<u>-</u>
Recognition of share based payments	<u>204,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>204,209</u>
Balance at 31 December 2012	<u>3,433,078</u>	<u>(79,678,292)</u>	<u>75,383,567</u>	<u>-</u>	<u>7,727,803</u>

Notes to the financial statements are included on pages 34 to 105.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated		Company	
		31	31	31	31
		December	December	December	December
		2013	2012	2013	2012
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		25,626,116	28,382,072	9,822	13,868
Payments to suppliers and employees		(28,264,414)	(24,656,527)	(679,305)	(813,318)
Interest received		74,280	171,697	68,023	152,342
Interest and other costs of finance paid		(82,464)	(112,741)	-	-
Net cash inflows/(outflows) from operating activities	22(b)	<u>(2,646,482)</u>	<u>3,784,501</u>	<u>(601,460)</u>	<u>(647,108)</u>
Cash flows from investing activities					
Advances (to) from wholly-owned controlled entities		-	-	(1,161,923)	2,824,982
Proceeds from sale of property, plant and equipment		65,466	59,543	-	-
Payment for property, plant and equipment		(143,264)	(45,234)	-	-
Net cash inflows/(outflows) from investing activities		<u>(77,798)</u>	<u>14,309</u>	<u>(1,161,923)</u>	<u>2,824,982</u>
Cash flows from financing activities					
Repayment of borrowings		(117,223)	(1,991,867)	-	-
Net cash (outflows)/inflows from financing activities		<u>(117,223)</u>	<u>(1,991,867)</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Note	Consolidated 31 December 2013 \$	31 December 2012 \$	Company 31 December 2013 \$	31 December 2012 \$
Net increase/(decrease) in cash and cash equivalents		(2,841,503)	1,806,943	(1,763,383)	2,177,874
Cash and cash equivalents at the beginning of the financial year		6,686,194	4,885,761	3,502,600	1,324,726
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>203,314</u>	<u>(6,510)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the financial year	22(a)	<u>4,048,005</u>	<u>6,686,194</u>	<u>1,739,217</u>	<u>3,502,600</u>

Notes to the financial statements are included on pages 34 to 105.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of Accounting Policies

Statement of compliance

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

The financial statements were authorised for issue by the Directors on 18 March 2014.

Basis of preparation

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

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The areas of judgement made by management are in the areas of asset impairment of property, plant and equipment, inventory obsolescence and percentage completion of construction contracts. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)**

1. Summary of Accounting Policies (cont)

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

(a) Going Concern

The financial report has been prepared on the basis that the company and the consolidated entity are going concerns, 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 earned a net profit during the year of \$1,562,746 (2012: \$10,181,971 loss). Net cash used by operating activities was \$2,646,482 (2012 - \$3,784,501 provided). As at 31 December 2013, the consolidated entity had cash of \$4,048,005 (2012 - \$6,686,194) of which \$97,000 (2012 - \$400,393) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted if the contracts are concluded or renegotiated.

Notwithstanding the net cash used by operations and the profit earned during the year, as at the date of this report having considered:

- the cash balances held at 31 December 2013;
- the willingness of key military and government customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the group; and
- the ability to raise capital from existing or new shareholders should the need arise

in the opinion of the directors, the company and the consolidated entity can continue as going concerns and pay their debts as and when they become due and payable.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(a) Going concern (cont)

If the consolidated entity is unable to secure additional profitable contracts or timely payments for goods supplied to key military and government customers are not made in accordance with contractual terms or the company is not able to raise further capital, significant uncertainty would exist 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(b) Borrowings

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

(c) Cash and cash equivalents

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

(d) Construction contracts and work in progress

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

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

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

(e) Embedded derivatives

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(f) Employee benefits

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

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

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

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

(g) Financial assets

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

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

Held to maturity investments

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

Loans and receivables

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)**

1. Summary of Accounting Policies (cont)

(h) Financial instruments issued by the company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

Interest

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

(i) Foreign currency

Foreign currency transactions

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

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

Foreign operations

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(j) Goods and services tax

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

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****1. Summary of Accounting Policies (cont)****(k) Government grants**

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

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

(l) Impairment of assets

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(l) Impairment of assets (cont)

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

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

(m) Income tax

Current tax

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

Deferred tax

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(m) Income tax (cont)

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Electro Optic Systems Holdings Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within the group' approach.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(m) Income tax (cont)

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

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

(n) Intangible assets

Research and development costs

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

Intangible assets acquired in a business combination

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

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

(o) Inventories

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(p) Leased assets

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

Consolidated entity as lessee

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

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

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

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

Lease incentives

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

(q) Payables

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(r) Basis of consolidation

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

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

(s) Property, plant and equipment

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****1. Summary of Accounting Policies (cont)****(s) Property, plant and equipment (cont)**

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

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

(t) Provisions

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

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

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

Warranties – Provisions for warranty costs are recognised as agreed in individual sales contracts, at the directors best estimate of the expenditure required to settle the consolidated entity's liability.

Contract losses – Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(t) Provisions (cont)

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

(u) Revenue recognition

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

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

Interest income is recognised as it accrues.

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

(v) Share based payments to employees

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

1. Summary of Accounting Policies (cont)

(w) Application of New and Revised Accounting Standards

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

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

- AASB 10 “Consolidated Financial Statements” and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”
- AASB 12 “Disclosure of Interests in Other Entities” and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”
- AASB 127 “Separate Financial Statements” (2011) and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”
- AASB 13 “Fair Value Measurement” and AASB 2011-8 “Amendments to Australian Accounting Standards arising from AASB 13”
- AASB 119 “Employee Benefits” (2011) and AASB 2011-10 ‘Amendments to Australian Accounting Standards arising from AASB 119 (2011)’

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB127 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and Interpretation 112 “Consolidation – Special Purpose Entities”. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

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

The directors of the Company made an assessment as at the date of the initial application of AASB 10 (i.e. 1 January 2013) as to whether or not the Group has control over the entities listed in Note 24 in accordance with the new definition of control and the related guidance set out in AASB 10. The directors concluded that the Company has control over the entities listed in Note 24 on the basis of its 100% shareholding and its ability to use its power to affect its variable returns.

The application of AASB 10 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 12

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and /or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. However this did not result in any changes to the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 "Share-based Payment", leasing transactions that are within the scope of AASB 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether the price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

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

13 for the 2012 comparative period, the application of AASB 13 has not had material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 119

In the current year, the Group has applied AASB 119 (as revised in 2011) "Employee Benefits" and the related consequential amendments for the first time.

The revised AASB 119 changes the definition of short-term benefits. Only benefits that are expected to be settled wholly within 12 months after the end of the end of the annual reporting period in which the employees render the service are classified as short-term employee benefits.

Specific transitional provisions are applicable to first-time application of AASB 119 (as revised in 2011). The Group has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The amount of these restatements is not material.

	31 December 2013 \$	31 December 2012 \$
Impact on total comprehensive income for the year of the application of AASB 119 (as revised in 2011)		
Impact on profit/(loss) for the year		
(Decrease)/increase in employee benefits expenses	(19,048)	2,148
(Decrease)/increase in profit/(loss) for the year	19,048	(2,148)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

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

Standards and Interpretations in issue not yet adopted

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	1-Jan-17	31-Dec-17
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	1-Jan-17	31-Dec-17
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1-Jul-13	31-Dec-14

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the consolidated entity but may change disclosures made.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

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

	As at 01/01/2012 as previously reported (Consolidated)	AASB 119 adjustments	As at 01/01/2012 as restated (Consolidated)
Impact on assets, liabilities and equity as at 1 January 2012 of the application of the above new and revised Standards			
Current employee benefits obligation	2,126,061	(67,266)	2,058,835
Total effect on net assets	12,660,247	67,266	12,727,513
Accumulated losses	(70,292,694)	67,266	(70,225,428)
Total effect on equity	12,660,247	67,266	12,727,513

	As at 31/12/2012 as previously reported (Consolidated)	AASB 119 adjustments	As at 31/12/2012 as restated (Consolidated)
Impact on assets, liabilities and equity as at 31 December 2012 of the application of the above new and revised Standards			
Current employee benefits obligation	2,382,606	(65,118)	2,317,488
Total effect on net assets	2,688,806	65,118	2,753,924
Accumulated losses	(80,472,517)	65,118	(80,407,399)
Total effect on equity	2,688,806	65,118	2,753,924

Impact on assets, liabilities and equity as at 31 December 2013 of the application of the amendments to AASB 119 (as revised in 2011)	AASB 119 adjustments
Decrease in current employee benefits obligation	19,048

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

(x) Comparative amounts

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
2. (Loss)/Profit from operations				
(a) Revenue				
Revenue from operations consisted of the following items:				
Revenue from the sale of goods	23,296,205	16,432,289	-	-
Revenue from the rendering of services	1,947,178	2,720,460	-	-
Construction contract revenue	<u>4,543,313</u>	<u>2,575,955</u>	<u>-</u>	<u>-</u>
	<u>29,786,696</u>	<u>21,728,704</u>	<u>-</u>	<u>-</u>
Interest revenue:				
Bank deposits	<u>74,280</u>	<u>171,697</u>	<u>68,023</u>	<u>152,342</u>
Other				
Other	<u>21,417</u>	<u>19,347</u>	<u>9,822</u>	<u>13,869</u>
	<u>29,882,393</u>	<u>21,919,748</u>	<u>77,845</u>	<u>166,211</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
(2) (Loss)/profit from operations (cont)				
(b) (Loss)/profit before income tax has been arrived at after charging the following expenses:				
Borrowing costs				
Finance lease finance charges	82,464	104,363	-	-
Interest paid – Other entities	-	8,378	-	-
	<u>82,464</u>	<u>112,741</u>	<u>-</u>	<u>-</u>
Depreciation and amortisation – property, plant and equipment	211,807	1,886,926	197	657
Amortisation – intangibles	-	131,519	-	-
Impairment of intangibles	-	565,119	-	-
(Reversal of)/ provision for non- recovery of loan – wholly-owned controlled entity	-	-	1,161,923	(2,824,983)
Provision for non-recovery of investment in subsidiary	-	-	-	204,209
Writedown of inventory to net realisable value	-	1,342,530	-	-
Loss/(Profit) on sale of property, plant and equipment	(43,891)	(4,603)	788	-
Foreign exchange (gain)/loss	(507,604)	196,299	(5,617)	(772)
Operating lease rental expenses:				
Minimum lease payments	<u>501,730</u>	<u>500,552</u>	<u>-</u>	<u>-</u>
Employee benefit expense:				
Share based payments:				
Equity settled	-	204,209	-	-
Contributions to defined contribution superannuation plans	896,508	917,051	12,410	12,240
Other employee benefits	<u>9,808,952</u>	<u>10,877,670</u>	<u>348,057</u>	<u>377,750</u>
	<u>10,705,460</u>	<u>11,998,930</u>	<u>360,467</u>	<u>389,990</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)**

Consolidated	
31	31
December	December
2013	2012
\$	\$

3. Earnings/(Loss) per Share

Basic earnings/(loss) per share	<u>2.7 cents</u>	<u>(17.9 cents)</u>
Diluted earnings/(loss) per share	<u>2.7 cents</u>	<u>(17.9 cents)</u>

Basic Earnings/(Loss) per Share

Earnings/(loss) (a)	<u>1,562,746</u>	<u>(10,181,971)</u>
Weighted average number of ordinary shares (b)	<u>56,845,926</u>	<u>56,845,926</u>

- (a) Earnings/(loss) used in the calculation of basic earnings per share are the same as the net profit/(loss) in the statement of profit or loss and other comprehensive income.
- (b) Options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (see below).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)**

	Consolidated	
	31	31
	December	December
	2013	2012
	\$	\$

3. Earnings/(Loss) per Share (cont)**Diluted Earnings/(Loss) per Share**

Earnings/(loss) (a)	<u>1,562,746</u>	<u>(10,181,971)</u>
---------------------	------------------	---------------------

Weighted average number of ordinary shares (b)	<u>56,845,926</u>	<u>56,845,926</u>
---	-------------------	-------------------

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

(b) The weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

Weighted average number of shares used in the calculation of basic earnings per share	56,845,926	56,845,926
Staff Share plan	_____ -	_____ -
Weighted average number of shares used in the calculation of diluted earnings per share	<u>56,845,926</u>	<u>56,845,926</u>

(c) The following potential ordinary shares are not dilutive and therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

Staff Share plan	_____ -	<u>1,025,000</u>
------------------	---------	------------------

(d) Weighted average number of converted, lapsed, or cancelled potential ordinary shares used in the calculation of diluted earnings per share:

None used as they are not considered dilutive.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
4. Income Tax				
(a) The prima facie income tax benefit on pre-tax accounting profit/(loss) from operations reconciles to the income tax benefit in the financial statements as follows:				
Profit/(Loss) from operations	<u>1,562,746</u>	<u>(10,181,971)</u>	<u>(1,783,317)</u>	<u>2,002,306</u>
Income tax (benefit)/expense calculated at 30%	468,824	(3,054,591)	(534,995)	600,692
Non-deductible (assessable) provision for non-recovery of loan	-	-	348,577	(847,495)
Share based payments	-	61,263	-	61,263
Previously unrecognised and unused tax losses now recognised				
Other non-deductible/ non assessable items	<u>(133,706)</u>	<u>(21,587)</u>	<u>(2,488)</u>	<u>(6,058)</u>
	335,118	(3,014,915)	(188,906)	(191,598)
Unused tax losses and tax offsets not recognised as deferred tax assets	<u>(335,118)</u>	<u>3,014,915</u>	<u>188,906</u>	<u>191,598</u>
Income tax attributable to operating (Loss)/profit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

Consolidated		Company	
31	31	31	31
December	December	December	December
2013	2012	2013	2012
\$	\$	\$	\$

4. Income Tax (Cont)

(b) Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets

Tax losses – revenue	20,973,928	21,309,046	6,765,429	6,576,523
Temporary differences	<u>1,504,102</u>	<u>1,489,161</u>	<u>-</u>	<u>-</u>
	<u>22,478,030</u>	<u>22,798,207</u>	<u>6,765,429</u>	<u>6,576,523</u>

Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Electro Optic Systems Holdings Limited. The members of the tax-consolidated entity group are identified in Note 24.

Nature of tax funding arrangements and tax sharing agreements

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

5. Other financial assets

Non-Current – at cost

Unlisted shares in controlled entities

at cost	-	-	4,016,132	4,016,132
provision for non recovery	<u>-</u>	<u>-</u>	<u>(4,016,132)</u>	<u>(4,016,132)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Carrying value at start of financial year

share options provided at no cost	-	-	-	204,209
provision for non recovery	<u>-</u>	<u>-</u>	<u>-</u>	<u>(204,209)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

Consolidated		Company	
31	31	31	31
December	December	December	December
2013	2012	2013	2012
\$	\$	\$	\$

5. Other financial assets (Cont)

The directors have assessed the carrying value of the unlisted shares held in controlled entities and have determined that, as at 31 December 2013, based upon the net asset position of the controlled entities, the current and historic trading results and the foreseeable future results from signed contracts on hand the investments are fully impaired.

6. Trade and other receivables

Current

Trade receivables	1,849,340	1,507,256	-	-
GST receivable	60,339	81,785	5,979	21,140
Rental deposit related party	-	5,843	-	5,843
Amounts due from customers under construction contracts (Note 30)	1,153,498	274,847	-	-
Other debtors	<u>6,626</u>	<u>5,165</u>	<u>-</u>	<u>-</u>
	<u>3,069,803</u>	<u>1,874,896</u>	<u>5,979</u>	<u>26,983</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
6. Trade and other receivables (cont)				
Ageing of past due not impaired				
31-60 days	851,463	344,008	-	-
61-90 days	17,954	1,217	-	-
120 days +	<u>48,302</u>	<u>9,114</u>	-	-
	<u>917,719</u>	<u>354,339</u>	-	-
Ageing of past due and impaired				
120 days +	-	-	-	-
Total	-	-	-	-
Movement in allowance for doubtful debts				
Balance at the beginning of the financial year	-	-	-	-
Amount released	-	-	-	-
Balance at the end of the financial year	-	-	-	-
7. Current Inventories				
Raw materials – at net realisable value	2,974,805	2,541,172	-	-
Work in progress – at cost	<u>2,346,056</u>	<u>1,314,678</u>	-	-
	<u>5,320,861</u>	<u>3,855,850</u>	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
8. Other Assets				
Current				
Prepayments	<u>332,811</u>	<u>588,939</u>	<u>-</u>	<u>-</u>
Non-current				
Amounts due from wholly-owned controlled entity	-	-	66,419,924	65,258,001
Less Allowance for uncollectible amounts	<u>-</u>	<u>-</u>	<u>(66,419,924)</u>	<u>(65,258,001)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Movement in allowance for uncollectible amounts				
Balance at the beginning of the financial year	-	-	65,258,001	68,082,984
Provision recognised in profit and loss	-	-	1,161,923	-
Reversal of provision recognised in profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,824,983)</u>
Balance at the end of the financial year	<u>-</u>	<u>-</u>	<u>66,419,924</u>	<u>65,258,001</u>
9. Intangibles				
License agreement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

On 3 December 2009 as part of the acquisition of the assets of Recon Optical Inc of the USA, the consolidated entity acquired a licence for the Kollmorgen Licensed patents. The license expires on the expiry of the patents which expire on 16 July 2017 and relates to the manufacturing of gimbals. The full value of the licence agreement was impaired during the prior period based on the forecasted future cash flows from signed contracts on hand.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
9. Intangibles (cont)				
Movement in intangible assets				
Gross carrying amount				
Balance at the beginning of the financial year	-	714,830	-	-
Amortisation	-	(131,519)	-	-
Impairment	-	(565,119)	-	-
Net foreign currency exchange differences	-	(18,192)	-	-
Balance at the end of the financial year	-	-	-	-
Net book value	-	-	-	-
10. Auditors Remuneration				
(a) Auditor of the Parent Entity				
Audit or review of the financial report	174,450	186,031	162,450	186,031
Taxation services	<u>25,200</u>	<u>13,500</u>	<u>25,200</u>	<u>13,500</u>
	<u>199,650</u>	<u>199,531</u>	<u>187,650</u>	<u>199,531</u>
(b) Network firm of the Parent Entity Auditor				
Audit or review of the financial report	-	10,821	-	-
Taxation services	-	<u>2,126</u>	-	-
	-	<u>12,947</u>	-	-
(c) Other Auditor				
Audit or review of the financial report	3,996	-	-	-
Taxation services	<u>2,664</u>	-	-	-
	<u>6,660</u>	-	-	-

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31 December 2013 \$	31 December 2012 \$	31 December 2013 \$	31 December 2012 \$
11. Property, Plant and Equipment				
(a) Plant and equipment – at cost	6,623,866	5,905,447	-	-
Less accumulated depreciation and impairment	<u>(6,497,766)</u>	<u>(5,755,546)</u>	<u>-</u>	<u>-</u>
	<u>126,100</u>	<u>149,901</u>	<u>-</u>	<u>-</u>
(b) Leased assets – at cost	10,863	361,997	-	-
Less accumulated amortisation and impairment	<u>(10,863)</u>	<u>(144,845)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>217,152</u>	<u>-</u>	<u>-</u>
(c) Office equipment – at cost	3,343,929	2,755,422	-	15,048
Less accumulated depreciation and impairment	<u>(3,013,886)</u>	<u>(2,589,636)</u>	<u>-</u>	<u>(14,063)</u>
	<u>330,043</u>	<u>165,786</u>	<u>-</u>	<u>985</u>
(d) Furniture, fixtures and fittings – at cost	316,896	280,703	-	-
Less accumulated depreciation and impairment	<u>(311,734)</u>	<u>(275,436)</u>	<u>-</u>	<u>-</u>
	<u>5,162</u>	<u>5,267</u>	<u>-</u>	<u>-</u>
(e) Leasehold improvements – at cost	1,220,701	1,128,493	-	-
Less accumulated depreciation and impairment	<u>(1,220,701)</u>	<u>(1,128,493)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(f) Motor vehicle – at cost	20,338	17,736	-	-
Less accumulated depreciation and impairment	<u>(20,338)</u>	<u>(17,736)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(g) Satellite – at cost	7,000,000	7,000,000	-	-
Less impairment	<u>(7,000,000)</u>	<u>(7,000,000)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net book value of Property, Plant and Equipment	<u>461,305</u>	<u>538,106</u>	<u>-</u>	<u>985</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
<u>Cost</u>				
Plant and equipment				
Balance at beginning of year	5,905,447	6,013,397	-	-
Additions	60,541	18,640	-	-
Asset transfers	-	9,730	-	-
Disposals	-	(65,066)	-	-
Net foreign currency exchange differences	<u>657,878</u>	<u>(71,254)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>6,623,866</u>	<u>5,905,447</u>	<u>-</u>	<u>-</u>
Leased assets				
Balance at beginning of year	361,997	362,181	-	-
Asset transfer	(324,074)	-	-	-
Disposals	(28,450)	-	-	-
Net foreign currency exchange differences	<u>1,390</u>	<u>(184)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>10,863</u>	<u>361,997</u>	<u>-</u>	<u>-</u>
Office equipment				
Balance at beginning of year	2,755,422	2,752,175	15,048	15,048
Additions	82,723	26,594	-	-
Asset transfers	324,074	4,979	-	-
Disposals	(38,189)	(3,862)	(15,048)	-
Net foreign currency exchange differences	<u>219,899</u>	<u>(24,464)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>3,343,929</u>	<u>2,755,422</u>	<u>-</u>	<u>15,048</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated 31 December 2013 \$	31 December 2012 \$	Company 31 December 2013 \$	31 December 2012 \$
11. Property, Plant and Equipment (cont)				
Furniture, fixtures and fittings				
Balance at beginning of year	280,703	300,212	-	-
Asset transfers	-	(14,709)	-	-
Net foreign currency exchange differences	<u>36,193</u>	<u>(4,800)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>316,896</u>	<u>280,703</u>	<u>-</u>	<u>-</u>
Leasehold improvements				
Balance at beginning of year	1,128,493	1,140,721	-	-
Net foreign currency exchange differences	<u>92,208</u>	<u>(12,228)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>1,220,701</u>	<u>1,128,493</u>	<u>-</u>	<u>-</u>
Motor vehicle				
Balance at beginning of year	17,736	18,081	-	-
Net foreign currency exchange differences	<u>2,602</u>	<u>(345)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>20,338</u>	<u>17,736</u>	<u>-</u>	<u>-</u>
Satellite				
Balance at beginning of year	7,000,000	7,000,000	-	-
Balance at end of year	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
Accumulated Depreciation/Amortisation/Impairment				
Plant and equipment				
Balance at beginning of year	(5,755,546)	(4,944,358)	-	-
Depreciation	(95,835)	(898,344)	-	-
Disposals	-	12,305	-	-
Net foreign currency exchange differences	(646,385)	74,851	-	-
Balance at end of year	<u>(6,497,766)</u>	<u>(5,755,546)</u>	<u>-</u>	<u>-</u>
Leased plant and equipment				
Balance at beginning of year	(144,845)	(77,607)	-	-
Amortisation expense	(2,678)	(67,422)	-	-
Transfers	129,788	-	-	-
Disposals	8,263	-	-	-
Net foreign currency exchange differences	(1,391)	184	-	-
Balance at end of year	<u>(10,863)</u>	<u>(144,845)</u>	<u>-</u>	<u>-</u>
Office equipment				
Balance at beginning of year	(2,589,636)	(1,996,675)	(14,063)	(13,406)
Depreciation	(113,189)	(619,166)	(197)	(657)
Transfers	(129,788)	-	-	-
Disposals	36,802	1,683	14,260	-
Net foreign currency exchange differences	(218,075)	24,522	-	-
Balance at end of year	<u>3,013,886</u>	<u>(2,589,636)</u>	<u>-</u>	<u>(14,063)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
11. Property, Plant and Equipment (cont)				
Furniture, fixtures and fittings				
Balance at beginning of year	(275,436)	(274,814)	-	-
Depreciation	(105)	(5,422)	-	-
Net foreign currency exchange differences	(36,193)	4,800	-	-
Balance at end of year	(311,734)	(275,436)	-	-
Leasehold improvements				
Balance at beginning of year	(1,128,493)	(844,149)	-	-
Amortisation	-	(296,572)	-	-
Net foreign currency exchange differences	(92,208)	12,228	-	-
Balance at end of year	(1,220,701)	(1,128,493)	-	-
Motor vehicle				
Balance at beginning of year	(17,736)	(18,081)	-	-
Net foreign currency exchange differences	(2,602)	345	-	-
Balance at end of year	(20,338)	(17,736)	-	-
Satellite				
Balance at beginning of year	(7,000,000)	(7,000,000)	-	-
Balance at end of year	(7,000,000)	(7,000,000)	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****11. Property, Plant and Equipment (cont)**

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 in the Queanbeyan and Tucson facilities and determined an impairment (reversal) charge for the year of Nil (2012: Nil). The basis to assess for any potential impairment was fair value less costs to sell and fair value determined by reference to an active market for second hand manufacturing equipment.

Consolidated		Company	
31	31	31	31
December	December	December	December
2013	2012	2013	2012
\$	\$	\$	\$

12. Current trade and other payables

Trade payables	2,358,432	1,473,693	18,976	10,831
Accruals	1,084,797	511,974	76,459	86,659
Amounts due to customers under construction contracts (Note 30)	<u>438,992</u>	<u>3,788,418</u>	<u>-</u>	<u>-</u>
	<u>3,882,221</u>	<u>5,774,085</u>	<u>95,435</u>	<u>97,490</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
13. Borrowings				
Secured - At amortised cost				
Current				
Finance lease liabilities (Note 26)	_____ -	<u>102,191</u>	_____ -	_____ -
Non-current				
Finance lease liabilities (Note 26)	_____ -	<u>15,032</u>	_____ -	_____ -
The finance lease liabilities are secured by the leased assets. The average weighted interest rate charged on the finance leases was 10.03% (2012 – 10.03%).				
14. Provisions				
Current				
Employee benefits (Note 16)	2,135,760	2,317,488	-	-
Contract losses	286,084	222,191	-	-
Contract credit	-	308,776	-	-
Decommissioning costs	250,000	250,000	-	-
Warranty (Note 15)	<u>1,863,783</u>	<u>1,507,027</u>	_____ -	_____ -
	<u>4,535,627</u>	<u>4,605,482</u>	_____ -	_____ -
Non-current				
Employee Benefits (Note 16)	<u>478,045</u>	<u>293,271</u>	_____ -	_____ -

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$

14. Provisions (cont)

Movement in contract loss provision

Balance at 1 January	222,191	22,422	-	-
Additional provision recognised	63,893	222,191	-	-
Reductions resulting from re-measurement	-	(22,422)	-	-
Balance as at 31 December	<u>286,084</u>	<u>222,191</u>	<u>-</u>	<u>-</u>

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

Movement in contract credit provision

Balance at 1 January	308,776	-	-	-
Additional provision recognised	(308,776)	308,776	-	-
Balance as at 31 December	<u>-</u>	<u>308,776</u>	<u>-</u>	<u>-</u>

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

Movement on decommissioning costs

Balance at 1 January	250,000	250,000	-	-
Balance as at 31 December	<u>250,000</u>	<u>250,000</u>	<u>-</u>	<u>-</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
15. Warranty Provisions				
Movement in warranty provision				
Balance at 1 January	1,507,027	2,047,061	-	-
Reductions resulting from re-measurement	(356,539)	(1,212,164)	-	-
Additional provisions recognised	<u>713,295</u>	<u>672,130</u>	-	-
Balance as at 31 December	<u>1,863,783</u>	<u>1,507,027</u>	-	-

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

16. Employee Benefits

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

Provision for employee entitlements

Current (Note 14)	<u>2,135,760</u>	<u>2,317,488</u>	-	-
Non-Current (Note 14)	<u>478,045</u>	<u>293,271</u>	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
17. Issued capital				
Balance at the beginning of the financial year – Ordinary shares	75,383,567	75,383,567	75,383,567	75,383,567
Balance at the end of the financial year	<u>75,383,567</u>	<u>75,383,567</u>	<u>75,383,567</u>	<u>75,383,567</u>

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

Fully Paid Ordinary Shares	Number	Number	Number	Number
Balance at the beginning of financial year	56,845,926	56,845,926	56,845,926	56,845,926
Balance at end of financial year	<u>56,845,926</u>	<u>56,845,926</u>	<u>56,845,926</u>	<u>56,845,926</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****18. Directors and Employee Share Option Plan****(a) Unlisted Options issued under the Employee Share Option Plan**

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

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

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

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

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

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

	2013		2012	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at the beginning of the financial year (i)	1,025,000	1.30	1,538,000	1.30
Granted during the year (ii)	-		-	
Exercised during the year (iii)	-		-	
Lapsed during the year (iv)	(1,025,000)	1.30	(513,000)	1.30
Balance at the end of the financial year (v)	-	1.30	1,025,000	1.30
Exercisable at end of the year	-		1,025,000	

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****18. Directors and Employee Share Option Plan (cont)****(b) Unlisted Options issued under the Employee Share Option Plan (cont)****(i) Balance at the beginning of the year**

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

2012	<u>Number</u>	<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise Price</u>	<u>Fair value at grant date</u>
Staff options	<u>1,538,000</u>	10/12/09	8/12/13	\$1.30	<u>\$1,481,094</u>

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

(ii) Granted during the year

There were no options issued during 2013 or 2012.

(iii) Exercised during the year

There were no options exercised during 2013 or 2012.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

18. Directors and Employee Share Option Plan (cont)

(iv) Lapsed during the year

	Number of Options Lapsed	Grant Date	Exercise Date	Expiry Date	Exercise Price	No. of Shares Issued	Fair Value Received	Fair Value of Shares at Date of Issue
2013								
Staff	1,025,000	10/12/09	-	8/12/13	\$1.30	-	-	-
2012								
Staff	513,000	10/12/09	-	8/12/13	\$1.30	-	-	-

(v) Balance at the end of the financial year

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

2012	<u>Number</u>	<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise Price</u>	<u>Fair value at grant date</u>
Staff options	1,025,000	10/12/09	8/12/13	\$1.30	\$987,075

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

All the options granted to staff during 2009 vested over a three year period with 20% vesting after 12 months, a further 30% after 2 years and the balance after 3 years. No options were issued during 2010, 2011, 2012 and 2013.

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 18 to the financial statements.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$

19. Reserves

Foreign currency translation	70,175	49,953	-	-
Employee equity-settled benefits	<u>7,727,803</u>	<u>7,727,803</u>	<u>7,727,803</u>	<u>7,727,803</u>
	<u>7,797,978</u>	<u>7,777,756</u>	<u>7,727,803</u>	<u>7,727,803</u>

Foreign currency translation

Balance at beginning of financial year	49,953	45,780	-	-
Translation of foreign operations	<u>20,222</u>	<u>4,173</u>	<u>-</u>	<u>-</u>
Balance at end of financial year	<u>70,175</u>	<u>49,953</u>	<u>-</u>	<u>-</u>

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

Employee equity-settled benefits

Balance at beginning of financial year	7,727,803	7,523,594	7,727,803	7,523,594
Share based payment	<u>-</u>	<u>204,209</u>	<u>-</u>	<u>204,209</u>
Balance at end of financial year	<u>7,727,803</u>	<u>7,727,803</u>	<u>7,727,803</u>	<u>7,727,803</u>

The employee equity-settled benefits reserve arises on the grant of share options to directors and executives under the Employee Share Option plan. Further information about share-based payments to employees is made in note 18 to the financial statements. Items included in employee equity-settled benefits reserve will not be reclassified subsequently to profit or loss.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)**

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
20. Accumulated Losses				
Balance at beginning of financial year	(80,407,399)	(70,225,428)	(79,678,292)	(81,680,598)
Net profit/ (loss) attributable to members of the parent entity	<u>1,562,746</u>	<u>(10,181,971)</u>	<u>(1,783,317)</u>	<u>2,002,306</u>
Balance at end of financial year	<u>(78,844,653)</u>	<u>(80,407,399)</u>	<u>(81,461,609)</u>	<u>(79,678,292)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

21. Key management personnel compensation

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

Mr Fred Bart (Chairman, Non-executive director)
Dr Ben Greene (Chief Executive Officer and director)
Mr Ian Dennis (Non-executive director)
Mr Mark Ureda (Non-executive director)
Lt Gen Peter Leahy AC (Non-executive director)
Mr Kevin Scully (Non-executive director)
Dr Craig Smith (Chief Executive Officer of EOS Space Systems Pty Limited)
Mr Mark Bornholt (Chief Executive Officer Defence Systems)
Mr Scott Lamond (Chief Financial Officer – Electro Optic Systems Pty Limited)

Key management personnel compensation policy

The board reviews the remuneration packages of all key management personnel on an annual basis. Remuneration packages are reviewed and determined with regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the company.

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

	Consolidated		Company	
	2013	2012	2013	2012
	\$	\$	\$	\$
Short-term employee benefits	1,332,836	1,601,075	337,750	377,750
Post-employment benefits	117,780	104,623	12,410	12,240
Share-based payment	-	39,934	-	-
Other long term benefits	-	-	-	-
	<u>1,450,616</u>	<u>1,745,632</u>	<u>350,160</u>	<u>389,990</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

21. Key management personnel compensation (Cont)

The compensation of the non-executive directors is paid by the holding company and is the same for both the holding company and the consolidated entity. The compensation for Dr Ben Greene and the senior executives are paid by subsidiary companies.

2013	Short term		Post Employment	Equity settled Share based payments	Other Long	Total
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$	Term Benefits \$	\$
Directors						
Mr Fred Bart	61,000	-	5,566	-	-	66,566
Dr Ben Greene*	370,032	20,054	33,476	-	-	423,562
Mr Ian Dennis	157,500	-	3,422	-	-	160,922
Mr Mark Ureda	40,875	-	-	-	-	40,875
Lt Gen Peter Leahy AC	37,500	-	3,422	-	-	40,922
Mr Kevin Scully	40,875	-	-	-	-	40,875
	<u>707,782</u>	<u>20,054</u>	<u>45,886</u>	<u>-</u>	<u>-</u>	<u>731,722</u>
Executives						
Dr Craig Smith	210,000	-	19,163	-	-	229,163
Mr Mark Bornholt	210,000	-	18,575	-	-	228,575
Mr Scott Lamond	185,000	-	16,881	-	-	201,881
	<u>605,000</u>	<u>-</u>	<u>54,619</u>	<u>-</u>	<u>-</u>	<u>659,619</u>
	<u>1,312,782</u>	<u>20,054</u>	<u>100,505</u>	<u>-</u>	<u>-</u>	<u>1,391,341</u>

* Executive director

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

21. Key management personnel compensation (Cont)

2012	Short term		Post Employment	Equity settled Share based payments	Other Long Term Benefits	Total
	Salary & Fees \$	Non- monetary \$	Super- annuation \$	Options \$		\$
Directors						
Mr Fred Bart	61,000	-	5,490	-	-	66,490
Dr Ben Greene*	439,994	28,726	37,177	-	-	505,897
Mr Ian Dennis	197,500	-	3,375	-	-	200,875
Mr Mark Ureda	40,875	-	-	-	-	40,875
Lt Gen Peter Leahy AC	37,500	-	3,375	-	-	40,875
Mr Kevin Scully	40,875	-	-	-	-	40,875
	<u>817,744</u>	<u>28,726</u>	<u>49,417</u>	<u>-</u>	<u>-</u>	<u>895,887</u>
Executives						
Dr Craig Smith	210,000	-	18,900	18,152	-	247,052
Mr Mark Bornholt	210,000	-	18,900	-	-	228,900
Mr John Palisi	80,324	-	2,326	-	-	82,650
Mr Scott Lamond	167,556	-	15,080	3,630	-	186,266
Mr Hugo Keyner	<u>85,976</u>	<u>749</u>	<u>-</u>	<u>18,152</u>	<u>-</u>	<u>104,877</u>
	<u>753,856</u>	<u>749</u>	<u>55,206</u>	<u>39,934</u>	<u>-</u>	<u>849,745</u>
	<u>1,571,600</u>	<u>29,475</u>	<u>104,623</u>	<u>39,934</u>	<u>-</u>	<u>1,745,632</u>

* Executive director

Non-monetary includes the provision for motor vehicles and health benefits.
Further details on options can be found in note 18.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

22. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and cash equivalents

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
22. Notes to the Cash Flow Statement (Cont)				
Cash and cash equivalents	<u>4,048,005</u>	<u>6,686,194</u>	<u>1,739,217</u>	<u>3,502,600</u>
(b) Reconciliation of (Loss)/profit for the year to net cash flows from operating activities				
Profit/ (Loss) for the period	1,562,746	(10,181,971)	(1,783,317)	2,002,306
Loss/(profit) on disposal of fixed assets	(43,891)	(4,603)	788	-
Equity settled share-based payments	-	204,209	-	-
Amortisation of intangibles	-	131,519	-	-
Impairment of intangibles	-	565,119	-	-
Depreciation of fixed assets	211,807	1,886,926	197	657
Foreign exchange movements	(196,409)	25,220	-	-
Provision for non-recovery of loan	-	-	1,161,923	(2,824,982)
Provision for non-recovery of investment	-	-	-	204,209
Writedown of inventory	-	1,342,530	-	-
(Increase)/decrease in assets				
Current receivables	(1,194,907)	7,960,131	21,004	(5,827)
Inventories	(1,465,011)	5,506,344	-	-
Other current assets	256,128	(487,623)	-	-
Increase/(decrease) in liabilities				
Provisions	114,919	180,647	-	-
Current trade and other payables	884,739	(1,978,231)	(2,055)	(23,471)
Other	572,823	216,665	-	-
Deferred income and amounts due to customers under construction contracts	(3,349,426)	(1,582,381)	-	-
Net cash (outflows)/ inflows from operating activities	<u>(2,646,482)</u>	<u>3,784,501</u>	<u>(601,460)</u>	<u>(647,108)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****23. Related party disclosures****(a) Equity interests in related parties**

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

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 21.

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

23. Related party disclosures (cont)

2012	Balance at 1/1/12	Granted as remuneration	Received on exercise of options	Net other change	Balance at 31/12/12
	No.	No.	No.	No.	No.
Mr Fred Bart	5,309,075	-	-	-	5,309,075
Dr Ben Greene	3,954,185	-	-	-	3,954,185
Mr Ian Dennis	170,050	-	-	-	170,050
Mr Mark Ureda	-	-	-	-	-
Lt Gen Peter Leahy AC	15,000	-	-	-	15,000
Mr Kevin Scully	-	-	-	-	-
Mr Mark Bornholt	-	-	-	-	-
Mr John Palisi	-	-	-	-	-
Dr Craig Smith	89,450	-	-	-	89,450
Mr Scott Lamond	-	-	-	-	-
Mr Hugo Keyner	-	-	-	-	-

(d) Key management personnel option holdings

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

The Company did not issue any options during the year ended 31 December 2010, 2011, 2012 and 2013 to Key management personnel. Refer to Note 18 for further details of options outstanding.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

23. Related party disclosures (cont)

2012	Balance at 1/1/12	Granted as remuner- ation	Exercised (Lapsed)	Balance at 31/12/12	Balance vested and exercisable at 31/12/12	Options vested during year
	No.	No.	No.	No.	No.	
Mr Fred Bart	-	-	-	-	-	-
Dr Ben Greene	-	-	-	-	-	-
Mr Ian Dennis	-	-	-	-	-	-
Mr Mark Ureda	-	-	-	-	-	-
Lt Gen Peter Leahy AC	-	-	-	-	-	-
Mr Kevin Scully	-	-	-	-	-	-
Mr Mark Bornholt	-	-	-	-	-	-
Dr Craig Smith	160,000	-	-	160,000	160,000	80,000
Mr John Palisi	160,000	-	(160,000)	-	-	-
Mr Scott Lamond	32,000	-	-	32,000	32,000	16,000
Mr Hugo Keyner	160,000	-	-	160,000	160,000	80,000

The Company did not issue any options during the year ended 31 December 2010, 2011 and 2012 to Key management personnel. Refer to Note 18 for further details of options outstanding.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

23. Related party disclosures (cont)

(e) Transactions with other related parties

Other related parties includes:

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

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

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

(f) Other transactions with key management personnel

During the year, the Company paid a total of \$66,566 (2012: \$66,490) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company received \$9,822 (2012: \$13,868) from 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of shared Sydney office facilities.

During the year, the Company paid \$40,922 (2012: \$40,875) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Ian Dennis.

During the year, the Company paid \$120,000 (2012: \$160,000) 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 \$11,927 (2012: 5,543) to Audio Pixels Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities. The Company also paid a rental deposit of Nil (2012: \$5,843) to Audio Pixels Holdings Limited included in Note 6.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****23. Related party disclosures (cont)**

(g) Parent entity

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

24. Controlled Entities

Name of Entity	Country of Incorporation	December 2013 %	December 2012 %
Parent Entity			
Electro Optic Systems Holdings Limited	Australia #		
Controlled Entities			
Electro Optic Systems Pty Limited	Australia #	100	100
Fire Control Systems Pty Limited	Australia #	100	100
FCS Technology Holdings Pty Limited	Australia #	100	100
EOS Space Systems Pty Limited	Australia #	100	100
EOS Optronics GmbH	Germany	100	100
EOS Defense Systems Pte Limited	Singapore	100	100
EOS USA, Inc. (Inc in Nevada)	USA	100	100
EOS Technologies, Inc. (Inc in Arizona)	USA	100	100
EOS Defense Systems, Inc (Inc in Arizona)	USA	100	100

These companies form part of the Australian consolidated tax entity.

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

25. Contingent Liabilities

- 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 group.

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
26. Capital and Leasing Commitments				
(a) Finance leasing commitments				
Payable – minimum future lease payments				
not later than one year	-	108,663	-	-
later than one year and not later than five years	-	17,038	-	-
later than five years	-	-	-	-
Minimum lease payments	-	125,701	-	-
Less future finance charges	-	(8,478)	-	-
Total lease liability	-	117,223	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		The Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
26. Capital and Leasing Commitments (cont)				
(b) Finance leasing commitments				
Payable – Present value of minimum future lease payments				
not later than one year	-	102,191	-	-
later than one year and not later than five years	-	15,032	-	-
later than five years	-	-	-	-
Present value of minimum lease payments	-	<u>117,223</u>	-	-
Represented by:				
Current liability (Note 13)	-	102,191	-	-
Non-current liability (Note 13)	-	<u>15,032</u>	-	-
	-	<u>117,223</u>	-	-
(c) Operating lease commitments				
Non-cancellable operating leases contracted for but not recognised in the financial statements:				
Payable:				
not later than one year	279,490	500,552	-	-
later than one year and not later than five years	-	-	-	-
later than five years	-	-	-	-
	<u>279,490</u>	<u>500,552</u>	-	-

Operating Leases

Leasing arrangements
Operating leases relate to:

Premises at 2500 N. Tucson Boulevard, Suite 100, Tucson Arizona with a lease term which expires on 30 September 2014. There is no option to renew after 30 September 2014 and future lease payments are fixed under the contract. There is no option to purchase the property.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

26. Capital and Leasing Commitments (cont)

Premises at 2112 N. Dragoon, Units 11, 12 and 19 Tucson Arizona with a lease term which expires on 30 April 2014. There is no option to renew after 30 April 2014 and future lease payments are fixed under the contract. There is no option to purchase the property.

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

Premises at EOS House at Mt Stromlo, Australia with a lease term which expires on 31 December 2014. There is an option to renew after 31 December 2014 and future lease payments are fixed under a contract. There is no option to purchase the property.

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

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

Finance Leases

Leasing arrangements

Finance leases relate to motor vehicles, computer and office equipment with lease terms of between one and three years. The consolidated entity has options to purchase the computer and office equipment for a nominal amount at the conclusion of the lease arrangements. The consolidated entity has options to purchase motor vehicles for agreed residual amounts at the conclusion of the lease arrangements.

27. Subsequent Events

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies

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

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

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

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

Risk Exposures and Responses

(a) Interest rate risk

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

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

	Consolidated		Company	
	2013	2012	2013	2012
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	4,048,005	6,686,194	1,739,217	3,502,600
Financial Liabilities				
Lease liabilities	-	(117,223)	-	-
	<u>4,048,005</u>	<u>6,568,971</u>	<u>1,739,217</u>	<u>3,502,600</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies (cont)

At 31 December 2013, if interest rates had 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)	
	2013 \$	2012 \$	2013 \$	2012 \$
Consolidated				
+1% (100 basis points)	40,480	66,862	40,480	66,862
-.5% (50 basis points)	<u>(20,240)</u>	<u>(33,431)</u>	<u>(20,240)</u>	<u>(33,431)</u>
Company				
+1% (100 basis points)	17,392	35,026	17,392	35,026
-.5% (50 basis points)	<u>(8,696)</u>	<u>(17,513)</u>	<u>(8,696)</u>	<u>(17,513)</u>

The movements in profits are due to lower interest rates on cash balances. The cash balances were lower in 2013 than in 2012 and accordingly the sensitivity is lower.

(b) Foreign currency risk

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

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies (cont)

At 31 December 2013, the Group had the following exposure to US\$ foreign currency:

	Consolidated		Company	
	2013	2012	2013	2012
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	1,252,409	1,176,313	7,979	520
Trade and other receivables	<u>1,811,154</u>	<u>1,155,120</u>	<u>-</u>	<u>-</u>
	<u>3,063,563</u>	<u>2,331,433</u>	<u>7,979</u>	<u>520</u>
Financial liabilities				
Trade and other payables	1,125,216	554,568	-	-
Finance leases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,125,216</u>	<u>554,568</u>	<u>-</u>	<u>-</u>
Net exposure	<u>1,938,347</u>	<u>1,776,865</u>	<u>7,979</u>	<u>520</u>

All US\$ denominated financial instruments were translated to A\$ at 31 December 2013 at the exchange rate of 0.8874 (2012: 1.0374).

At 31 December 2013, 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)	
	2013	2012	2013	2012
	\$	\$	\$	\$
Consolidated				
AUD/USD +10%	299,343	(275,905)	299,343	(275,905)
AUD/USD -5%	<u>652,663</u>	<u>(38,911)</u>	<u>652,663</u>	<u>(38,911)</u>
Company				
AUD/USD +10%	1,232	(64)	1,232	(64)
AUD/USD -5%	<u>2,687</u>	<u>(7)</u>	<u>2,687</u>	<u>(7)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies (cont)

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

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

(c) Credit risk management

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

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

(d) Liquidity risk management

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

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

Liquidity and interest tables

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies (cont) (d) Liquidity risk management (cont)

Consolidated	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
2013					
Other non interest bearing liabilities	-	3,443,229	-	-	-
Finance lease liability	-	-	-	-	-
2012					
Other non interest bearing liabilities	0.00	1,985,667	-	-	-
Finance lease liability	10.03	12,067	24,133	108,603	11,857
Company	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
2013					
Other non interest bearing liabilities	-	<u>95,435</u>	<u>-</u>	<u>-</u>	<u>-</u>
2012					
Other non interest bearing liabilities	-	<u>97,490</u>	<u>-</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies (cont) (d) Liquidity risk management (cont)

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

Consolidated	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
2013					
Non interest bearing	-	1,317,127	-	-	-
Variable interest rate instruments	-	-	-	-	-
Fixed interest rate instruments	1.94	2,636,337	15,126	82,153	-
		<u>3,953,464</u>	<u>15,126</u>	<u>82,153</u>	<u>-</u>
2012					
Non interest bearing	-	2,361,884	-	-	-
Variable interest rate instruments	-	-	-	-	-
Fixed interest rate instruments	3.10	4,320,267	15,197	-	-
		<u>6,682,151</u>	<u>15,197</u>	<u>-</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

28. Financial risk management objectives and policies (cont) (d) Liquidity risk management (cont)

Company	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
2013					
Non interest bearing	-	7,979	-	-	-
Variable interest rate instruments	-	-	-	-	-
Fixed interest rate instruments	2.74	<u>1,717,840</u>	<u>15,126</u>	-	-
2012					
Non interest bearing	-	520	-	-	-
Variable interest rate instruments	-	-	-	-	-
Fixed interest rate instruments	3.22	<u>3,496,714</u>	<u>19,270</u>	-	-

(e) Price risk

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)**

29. Segment Information

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

The identification of the Group's reportable segments has changed from those disclosed in the previous 2012 Annual Report. The Group's reportable segments are now Defence Systems and Space. Space Systems and Space Surveillance are now combined into one sector called Space for the year ended 31 December 2013.

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

Product and Services within each Segment

Space

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

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

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****29. Segment Information (Cont)****Segment Revenues**

	Consolidated	
	31 December 2013 \$	31 December 2012 \$
Space	5,592,858	4,785,798
Defence systems	<u>24,215,255</u>	<u>16,962,253</u>
Total of all segments	29,808,113	21,748,051
Unallocated	<u>74,280</u>	<u>171,697</u>
Total	<u>29,882,393</u>	<u>21,919,748</u>

Segment Results

Space	1,463,696	(1,165,051)
Defence systems	<u>720,444</u>	<u>(8,194,298)</u>
Total of all segments	2,184,140	(9,359,349)
Unallocated	<u>(621,394)</u>	<u>(822,622)</u>
(Loss)/profit before income tax expense	1,562,746	(10,181,971)
Income tax expense	—	—
(Loss)/profit for the period	<u>1,562,746</u>	<u>(10,181,971)</u>

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period. The consolidated entity has one customer who provided in excess of 10% of consolidated revenue. This customer is within the Defence segment with total revenue of \$17,975,010 (2012 - \$15,475,370).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

29. Segment Information (cont)

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2013 \$	31 December 2012 \$	31 December 2013 \$	31 December 2012 \$
Space	1,240,622	545,258	1,829,722	3,287,349
Defence systems	<u>7,944,158</u>	<u>6,312,533</u>	<u>7,066,171</u>	<u>7,385,489</u>
Total all segments	9,184,780	6,857,791	8,895,893	10,672,838
Unallocated	<u>4,048,005</u>	<u>6,686,194</u>	<u>-</u>	<u>117,223</u>
Consolidated	<u>13,232,785</u>	<u>13,543,985</u>	<u>8,895,893</u>	<u>10,790,061</u>

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 amortization of segment assets		Acquisition of segment assets	
	31 December 2013 \$	31 December 2012 \$	31 December 2013 \$	31 December 2012 \$
Space	12,008	94,039	26,881	9,748
Defence systems	<u>94,807</u>	<u>1,781,830</u>	<u>116,383</u>	<u>35,485</u>
Total all segments	106,815	1,875,869	143,264	45,234
Unallocated	<u>104,992</u>	<u>707,695</u>	<u>-</u>	<u>-</u>
Consolidated	<u>211,807</u>	<u>2,583,564</u>	<u>143,264</u>	<u>45,234</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)****29. Segment Information (cont)**

Information on Geographical Segments

31 December 2013

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

31 December 2012

Geographical Segments	Revenue from External Customers \$	Segment Assets \$	Acquisition of Segment Assets \$
Australasia	21,420,123	11,276,983	30,223
North America	498,084	2,239,679	14,331
Germany	<u>1,541</u>	<u>27,323</u>	<u>680</u>
Total	<u>21,919,748</u>	<u>13,543,985</u>	<u>45,234</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$	\$	\$	\$
30. Construction Contracts				
Construction work in progress	<u>11,157,390</u>	<u>12,481,076</u>	_____	_____
Less				
Provision for losses	(286,084)	(221,191)	-	-
Progress billings	<u>(10,156,800)</u>	<u>(15,773,456)</u>	_____	_____
	<u>714,506</u>	<u>(3,513,571)</u>	_____	_____
Recognised and included in the financial statements as amounts due:				
From customers under construction contracts:				
Current (note 6)	<u>1,153,498</u>	<u>274,847</u>	_____	_____
To customers under construction contracts:				
Current (note 12)	<u>(438,992)</u>	<u>(3,788,418)</u>	_____	_____
	<u>714,506</u>	<u>(3,513,571)</u>	_____	_____
Retentions included in progress billings	_____	_____	_____	_____

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (cont)

31. Additional Company Information

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

Registered Office

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

Tel: 02 9233 3915
Fax: 02 9232 3411

Principal Place of Business

EOS House
Mt Stromlo Observatory
Cotter Road
Weston Creek ACT 2611
Australia
Tel: 02 6222 7900
Fax: 02 6299 7687

USA Operations

2500 N. Tucson Boulevard
Suite 100
Tucson, Arizona 85716
USA
Tel: +1 (520) 624 6399
Fax: +1 (520) 624 1906

German Operations

Ulrichsberger Str. 17 3 OG
94469 Deggendorf
Germany
Tel: +49 991 2910083
Fax: +49 991 2910399

Singapore Operations

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364
AND CONTROLLED ENTITIES

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 13 March 2014 the following substantial shareholders were registered:

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

VOTING RIGHTS

At 13 March 2014 there were 1,012 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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364
AND CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION (Cont)

- (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 ratio 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 13 March 2014 the distribution of share and option holdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	180	103,493
1,001 – 5,000	340	1,022,632
5,001 – 10,000	190	1,655,058
10,001 – 100,000	235	8,299,812
100,001 and over	<u>67</u>	<u>45,764,931</u>
	<u>1,012</u>	<u>56,845,926</u>

There were 188 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

TWENTY LARGEST SHAREHOLDERS - QUOTED

TWENTY LARGEST ORDINARY SHAREHOLDERS - QUOTED

At 13 March 2014 the 20 largest ordinary shareholders held 62.27% of the total issued fully paid quoted ordinary shares of 56,845,926.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Citicorp Nominees Pty Limited	6,241,016	10.98%
2. N & J Properties Pty Limited	4,090,000	7.20%
3. Mr Kevin Tay Hak Leong	2,854,969	5.02%
4. Technology Transformations Pty Limited	2,754,185	4.85%
5. Leo James Casey+Frances Mary Casey	2,532,000	4.45%
6. Emichrome Pty Limited	2,516,488	4.43%
7. Crea8ive Nominees Pty Limited	1,901,328	3.34%
8. Capitol Enterprises Limited	1,550,000	2.73%
9. A & D Wire Limited	1,457,276	2.56%
10. Landed Investments Limited	1,255,201	2.21%
11. Technology Investments Pty Limited	1,200,000	2.11%
12. Justin Casey <2 A/C>	1,080,351	1.90%
13. Landed Investments NZ Limited	1,010,000	1.78%
14. Emichrome Pty Limited <Super Fund A/C>	997,450	1.75%
15. DBS Vickers Securities (Singapore) Pte Ltd	922,000	1.62%
16. National Nominees Limited	906,409	1.59%
17. Kam Superannuation Fund Pty Limited	693,000	1.22%
18. Tony Peter Vucic+Diane Vucic	525,000	0.92%
19. JP Morgan Nominees Australia Limited	463,763	0.82%
20. Innovation Investments Pty Limited	450,000	0.79%
	<u>35,400,436</u>	<u>62.27%</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE GOVERNANCE STATEMENT

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

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

The Corporate Governance Statement follows the Australian Stock Exchange Corporate Governance Council's (the "Council's") amendments to the 2nd edition of the Corporate Governance Principles and Recommendations released 30 June 2010 in relation to diversity, remuneration, trading policies and briefings.

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

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

Electro Optic Systems Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2013 and embrace the Council's best practice recommendations which are being put in place as appropriate.

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE GOVERNANCE STATEMENT (cont)

The Company has documented risk management policies and procedures in accordance with its ISO 9001 certification for its operating activities which are regularly reviewed. During the current year the Directors have adopted a formal risk assessment plan in order to comply with Principle 7.

Additional information regarding the Company's corporate governance policies, its Directors, Insider Trading Policy, Equality and Diversity in the Workplace Policy and other relevant information can be found on the Company's website:

www.eos-aus.com

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report is included in the Directors' Report on pages 9 and 10. Directors of Electro Optic Systems Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5 percent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 percent of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

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

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE GOVERNANCE STATEMENT (cont)

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

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

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

Nomination Committee

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

Performance

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

Remuneration

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE GOVERNANCE STATEMENT (cont)

For details regarding the amount of remuneration and all monetary and non-monetary components for Directors and executives, refer to Note 21 of the Notes to the Financial Statements. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Electro Optic Systems Holdings Limited and the performance of the individual during the period.

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

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

Equality and Diversity Policy

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

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

The Equality and Diversity Policy of the Company is available on the Company's web site at www.eos-aus.com

Safeguard integrity in financial reporting

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE GOVERNANCE STATEMENT (cont)

Policy on Trading in Securities

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

The Securities Trading Policy of the Company is available on the Company's website at www.eos-aus.com and has been lodged with ASX Limited