

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ACN 092 708 364

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2016

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
Mr Geoff Brown

Company Secretary

Mr Ian Dennis

Registered Office

Suite 3, Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia

Telephone:- 612 9233 5015
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
8 Brindabella Circuit
Brindabella Business Park
Canberra Airport ACT 2609
Australia

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS

1. RESULTS FOR FULL-YEAR ENDING 31 DECEMBER 2016

The consolidated entity (“EOS”) reported an operating loss after tax of \$866,692 for the year ended 31 December 2016 [2015: \$3,032,442 profit] based on revenues totalling \$25,797,200 [2015: \$30,500,748].

The consolidated entity reported net cash used by operations for the year totalling \$2,673,487 [2015: \$6,964,066 provided by]. At 31 December 2016, the consolidated entity held cash totalling \$8,874,967 [2015: \$11,894,300]. Cash of \$195,127 [2015: \$1,849,580] is restricted as it secures bank guarantees relating to performance on some contracts.

These results are broadly in line with management expectations as the company prepares for expansion through 2017.

The results included a tax refund received of \$2,031,785 [2015: nil] under the Research and Development tax offset program.

On 27 March 2017, the Company announced a placement of 3,863,638 new ordinary shares at \$2.20 to sophisticated and professional investor clients of Petra Capital Pty Limited raising a total of \$8.5m. These funds will be used for working capital purposes.

2. EOS DEFENCE SYSTEMS

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

This segment achieved a marginal profit in 2016, with support from government rebates for its research and development outlays. Key features of this performance were:

- Long-term programs for continuous improvement in quality and productivity provided more gains, but at a reduced level which indicates that an optimum point is approaching for the current business model; and
- EOS investment transitioned from R&D to testing and qualification of specific new products with key customers, to meet specific customer requirements.

Customer satisfaction remains at high levels.

The performance of this sector in 2016 was achieved at a turning point in the global RWS market:

- A. The original RWS market opened by EOS in the 1990’s has been commoditised and in decline for five years.
- B. Emerging demand for next-generation products with leap-ahead technology is very strong, with contract awards in 2017 expected to far exceed traditional RWS products.

EOS has been predicting this paradigm shift for several years, and has invested heavily in the necessary research and product development. EOS next-generation products now available to customers provide a very significant improvement in firepower-per-kilogram of weapon system payload over all previously-fielded RWS.

REVIEW OF OPERATIONS (cont)

On 3 March 2017, the Company announced that it had received a firm order for US\$7m of remote weapon system products from Orbital ATK (USA). The order is to support the purchase of long lead-time parts for a significant program requirement, pending finalisation of the main contract. On 27 March 2017, the Company announced that the parties had completed sufficient definition of the contract deliverables for the scale of the proposed contract to be determined in the range of A\$150-170 million, deliverable from 2017-2020. The parties now expect to reach final agreement within 14 days once all terms and conditions are finalised.

3. EOS SPACE SYSTEMS

EOS has developed unique space tracking sensors which can cost-effectively obtain accurate orbital data for space debris and satellites. This information degrades rapidly after acquisition, so it must be continuously updated with new observations. The requirement for new data is persistent and long term.

It is not practical to sell EOS sensors to space operators, because each individual operator will need a small amount of data from each of many sensors. The EOS business model pools the requirements of many users to deploy sufficient sensors to achieve the data service levels required.

On 1 February 2017 EOS announced that it had achieved initial operations at its new space sensor site in Western Australia. This site will require several months of formal test procedures to be executed in collaboration with the Commonwealth and other potential data customers. Those formal tests are expected to commence during Q2 2017. Since existing EOS sensors can meet the planned test requirements, EOS does not expect significant issues with the test regime.

Space business development is again tracking to plan, after delays encountered during 2015 and 2016 relating to the specific site. Those delays have resulted in a revised and expanded site selection process to be applied for further deployment of EOS sensors. Site selection for the next sensor site has been under way for 5 months, and should conclude during Q2 2017. A location in Queensland is presently preferred.

One more operational site will allow EOS to provide robust, reliable operations from multiple sites to support mission-critical space applications. The next site should require only 12 months to fully deploy, so EOS expects to lift space data acquisition capacity in 2018 to many times its 2015 capacity. At this level EOS will exceed critical mass of sites, data and sensors, and can meet initial commercial objectives for data volume and data reliability.

The infrastructure build-out moves in lock-step with data and service delivery contracts, and these are under negotiation with current and potential customers.

Further capacity expansion will be undertaken as data volume requirements increase, as reflected in executed customer contracts.

Meanwhile this sector sustained a loss in 2016 which would not have been incurred without substantial and fully-expensed outlays for new sensors for future sites and site infrastructure costs.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

4. FORECAST AND OUTLOOK

The operating loss of \$886,692 for the 12 months ended 31 December 2016 was within management expectations.

From 2017 EOS expects to rapidly increase revenue over a number of years, due to the Defence systems and Space systems businesses both maturing.

Over recent years, EOS has been working closely with customers and industry partners to establish new markets for a new generation of RWS. This period of research, product development, product qualification and production preparation is nearing completion. EOS is presently negotiating multiple delivery contracts for a substantial number of next-generation RWS.

EOS expects multi-year defence contracts for advanced weapon systems to be in place within the next 60 days, with each providing strong revenue and profit growth for several years. The near-term outlook for EOS' Defence Systems sector is strong.

The outlook for EOS' Space Systems sector is positive. After program delays not associated with EOS sensor performance or market requirements, EOS is again accumulating space data capacity to meet demand for space data.

EOS is confident that its Space Systems sector will independently contribute significant revenue and profit to the company from Q4 2018, commensurate with the substantial investments EOS has made in this sector.

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

The financial statements have been prepared on the basis of a going concern as detailed in Note 1.

Ben Greene

Chief Executive Officer

31 March 2017

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 2016. 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 62). He has been Chairman and Director of numerous public and private companies since 1980, specialising in manufacturing, property, technology and marketable securities. Mr Bart is Chairman of Immunovative Therapies Limited, an Israeli company involved in the manufacture of cancer vaccines for the treatment of most forms of cancer. He is a member of the Remuneration Committee. Appointed to the Board on 8 May 2000.
Dr Ben Greene	BE (Hons), Phd in Applied Physics (Age 66) 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 59) 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 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 62). 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 Senior Vice President, Products and Technology, Professional Solutions Division, Harman International. 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 64). Appointed to the Board on 4 May 2009. Peter Leahy AC retired from the Australian Army in July 2008 as a Lieutenant General in the position of Chief of Army. Among his qualification he holds a BA (Military Studies), a Master of Military Arts and Science and is a member of the Australian Institute of Company Directors. He is a Professor and the foundation Director of the National Security Institute at the University of Canberra. He is a director of Codan Limited, Citadel Group Limited, a member of the Defence South Australia Advisory Board, Chairman of the Red Shield Appeal in the ACT and the charity Soldier On and a Trustee of the Prince's Charities Australia. In 2014 he was appointed by the Minister for Defence as a member of the First Principles Review of Defence and in 2016 accepted the position as the Chairman of the Australian International Military Games, which will bring the Invictus Games to Australia in 2018. He is Chairman of the Audit Committee and Remuneration Committee. |
| Kevin Scully | Non-executive director (Age 60). Appointed to the Board on 19 September 2011. Kevin Scully has more than 30 years of experience in equities research and analysis, corporate advisory and related matters. He has worked in various positions such as the head of research and director of Schroders, HSBC and the Netresearch group (which he founded). Kevin was an advisor to two regulatory authorities of the Singaporean Government (Commercial Affairs Department and the Monetary Authority of Singapore) for 16 years. In March 2014 he was appointed Adjunct Professor in the School of Human Development and Social Services at SIM University. Kevin is also a director of Sen Yue Holdings Limited, JEP Holdings Limited and NTUC Income Insurance Co-Operative Limited. He is a member of the Audit Committee. |

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Geoff Brown AO

Non-executive director (Age 58). Appointed to the Board on 21 April 2016. Geoff Brown AO retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institute of Engineering Australia and is a Fellow of the Royal Aeronautical Society. He is a Director of Lockheed Martin (Australia) Pty Limited, Chairman of the Sir Richard Williams Foundation and Chairman of the Advisory Board of CAE Asia Pacific.

The above named directors held office during and since the end of the financial year apart from Geoff Brown who was appointed on 21 April 2016.

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
	Citadel Group Limited	27 June 2014 to date
Kevin Scully	Sen Yue Holdings Limited	11 April 2011 to date
	JEP Holdings Limited	1 May 2015 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 5 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

On 27 March 2017, the Company completed a placement of 3,863,638 new ordinary shares at \$2.20 to sophisticated and professional investor clients of Petra Capital Pty Limited raising a total of 8.5m. These funds will be used for working capital purposes.

On 3 March 2017, the Company announced that it had received a firm order for US\$7m of remote weapon system products from Orbital ATK (USA). The order is to support the purchase of long lead-time parts for a significant program requirement, pending finalisation of the main contract. On 27 March 2017, the Company announced that the parties had completed sufficient definition of the contract deliverables for the scale of the proposed contract to be determined in the range of A\$150-170 million, deliverable from 2017-2020. The parties now expect to reach final agreement within 14 days once all terms and conditions are finalised.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

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

Future developments

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

Please see the review of operations for further details.

Environmental Regulations

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

Dividends

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

Share Options

Share options granted to directors and executives

During the financial year, 3,000,000 unlisted options were issued to directors on 11 February 2016 following shareholder approval on 5 February 2016 and a further 200,000 unlisted options were issued on 30 May 2016 following shareholder approval. 2,515,000 unlisted options were also issued to staff on the same date. These 5,715,000 options issued under the Employee Share Option Plan have an exercise price of \$3.00 each and expire on 31 January 2019. 900,000 of these options were issued to senior executives included as part of the key management personnel.

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

There were 5,715,000 options outstanding 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, 12 Board meetings, two Audit committee meetings and one Remuneration committee meetings were held.

	Board of directors		Audit committee		Remuneration committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	12	12	-	-	1	1
Dr Ben Greene	12	12	-	-	-	-
Mr Ian Dennis	12	12	2	2	1	1
Mr Mark Ureda	12	10	-	-	-	-
Lt Gen Peter Leahy AC	12	11	2	2	1	1
Mr Kevin Scully	12	11	2	2	-	-
Mr Geoff Brown AO	9	9	-	-	-	-

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	Unlisted Options
Mr Fred Bart	5,309,075	200,000
Dr Ben Greene	3,954,185	2,000,000
Mr Ian Dennis	170,050	200,000
Mr Mark Ureda	-	200,000
Lt Gen Peter Leahy AC	33,600	200,000
Mr Kevin Scully	-	200,000
Mr Geoff Brown AO	-	200,000

There has been no movement in Director shareholdings during the 2016 year. 3,000,000 unlisted options were issued on 11 February 2016 and a further 200,000 unlisted options were issued to Mr Geoff Brown on 30 May 2016 under the Employee Share Option Plan. The unlisted options are exercisable at \$3.00 each and expire on 31 January 2019.

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 Geoff Brown (Non-executive director)
Dr Craig Smith (Chief Executive Officer of EOS Space Systems Pty Limited)
Mr Scott Lamond (Chief Financial Officer – Electro Optic Systems Pty Limited)
Dr Warwick Holloway (Chief Executive Officer of EOS Defence Systems Pty Limited)

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

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. Approval will be requested at the next Annual General Meeting to increase the maximum aggregate remuneration of Non-Executive Directors by \$150,000 to \$500,000.

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Executive Director and Senior Management remuneration

Objective

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

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

Structure

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

Employment contracts

There are no employment contracts in place with any Non-Executive Director of the Group. Executive Directors and Senior Management are employed under standard employment contracts which contain no unusual terms. Beyond accrued leave benefits, there are no other termination payments or golden parachutes for any directors or senior executives. The CEO has a 180 day notice period under his employment contract and the other senior management have 90 day notice periods under their employment contracts.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Director remuneration

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

2016	Short term		Post Employment	Equity	Other Long Term Benefits	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Options \$	\$	\$
Mr Fred Bart	61,000	-	5,795	49,798	-	116,593
Dr Ben Greene*	417,605	20,125	31,459	497,984	52,897	1,020,070
Mr Ian Dennis#	157,500	-	3,563	49,798	-	210,861
Mr Mark Ureda	40,875	-	-	49,798	-	90,673
Lt Gen Peter Leahy AC	37,500	-	3,563	49,798	-	90,861
Mr Kevin Scully	40,875	-	-	49,798	-	90,673
Mr Geoff Brown AO	<u>25,859</u>	<u>-</u>	<u>2,456</u>	<u>40,279</u>	<u>-</u>	<u>68,594</u>
	<u>781,214</u>	<u>20,125</u>	<u>46,836</u>	<u>787,253</u>	<u>52,897</u>	<u>1,688,325</u>

* Executive Director during the financial year

Includes fees for company secretarial and accounting consultancy services provided of \$120,000 (2015: \$120,000)

2015	Short term		Post Employment	Equity	Other Long Term Benefits	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Options \$	\$	\$
Mr Fred Bart	61,000	-	5,795	-	-	66,795
Dr Ben Greene*	413,362	-	37,038	-	10,334	460,734
Mr Ian Dennis#	157,500	-	3,563	-	-	161,063
Mr Mark Ureda	40,875	-	-	-	-	40,875
Lt Gen Peter Leahy AC	37,500	-	3,563	-	-	41,063
Mr Kevin Scully	<u>40,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,875</u>
	<u>751,112</u>	<u>-</u>	<u>49,959</u>	<u>-</u>	<u>10,334</u>	<u>811,405</u>

* Executive Director during the financial year

Includes fees for company secretarial and accounting consultancy services provided of \$120,000 (2015: \$120,000)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Executive remuneration

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

2016	Short term		Post Employment	Equity	Other Long Term Benefits	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Options \$	\$	\$
Dr Craig Smith	212,766	-	20,213	74,698	16,324	324,001
Mr Scott Lamond	212,766	-	20,213	56,023	13,699	302,701
Dr Warwick Holloway*	<u>173,938</u>	<u>-</u>	<u>16,524</u>	<u>37,348</u>	<u>9,260</u>	<u>237,070</u>
	<u>599,470</u>	<u>-</u>	<u>56,950</u>	<u>168,069</u>	<u>39,283</u>	<u>863,772</u>

2015	Short term		Post Employment	Equity	Other Long Term Benefits	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Options \$	\$	\$
Dr Craig Smith	210,000	-	19,950	-	5,250	235,200
Mr Scott Lamond	<u>210,000</u>	<u>-</u>	<u>19,950</u>	<u>-</u>	<u>5,250</u>	<u>235,200</u>
	<u>420,000</u>	<u>-</u>	<u>39,900</u>	<u>-</u>	<u>10,500</u>	<u>470,400</u>

Dr Warwick Holloway was appointed as CEO of EOS Defence Systems Pty Limited on 21 January 2016. Prior to that he was General Manager of EOS Defence Systems Pty Limited.

Mark Bornholt was a full time executive until he resigned on 12 August 2014. Since 12 August 2014, a company associated with Mark Bornholt has received consulting fees for services rendered. In 2016, a company associated with Mark Bornholt received \$35,305 (2015: \$49,231).

No options were granted to, or exercised by any director or executive during 2015. During the financial year, 3,000,000 options were granted to Directors on 5 February 2016 and 200,000 options on 30 May 2016 at an exercise price of \$3.00 with an expiry date of 31 January 2019.

During the financial year, 2,515,000 options were issued to staff on 5 February 2016 at an exercise price of \$3.00 with an expiry date of 31 January 2019. 900,000 of these options were issued to senior executives included as part of the key management personnel.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

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

	Balance at 1/1/16	Granted as remuneration	Received on exercise of options	Net other change	Balance at 31/12/16
	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	33,600	-	-	-	33,600
Mr Kevin Scully	-	-	-	-	-
Mr Geoff Brown AO	-	-	-	-	-
Dr Craig Smith	89,450	-	-	-	89,450
Mr Scott Lamond	11,000	-	-	-	11,000
Dr Warwick Holloway	-	-	-	-	-

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 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Key management personnel option holdings

There were no options outstanding at the end of the previous financial year. During the current financial year, 4,100,000 unlisted options exercisable at \$3.00 each with an expiry date of 31 January 2019 were issued to the following key management personnel:

Directors	Date of Issue	Unlisted Options at the date of this report held by KMP
Mr Fred Bart	5 February 2016	200,000
Dr Ben Greene	5 February 2016	2,000,000
Mr Ian Dennis	5 February 2016	200,000
Mr Mark Ureda	5 February 2016	200,000
Lt Gen Peter Leahy AC	5 February 2016	200,000
Mr Kevin Scully	5 February 2016	200,000
Mr Geoff Brown AO	30 May 2016	200,000
Dr Craig Smith	5 February 2016	400,000
Mr Scott Lamond	5 February 2016	300,000
Dr Warwick Holloway	5 February 2016	200,000
		<u>4,100,000</u>

These options vest as to 50% of the number after one year with the balance of 50% vesting after two years from the date of issue.

Other transactions with key management personnel

During the year, the Company paid a total of \$66,795 (2015: \$66,795) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company paid \$41,063 (2015: \$41,063) 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 (2015: \$120,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

During the year, the Company paid \$22,478 (2015: \$21,104) 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.

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 2016 \$	31 December 2015 \$	31 December 2014 \$	31 December 2013 \$	31 December 2012 \$
Revenue	25,797,200	30,500,748	23,476,433	29,882,393	21,919,748
Net (loss) / profit before tax	(2,918,477)	3,032,442	(3,017,546)	1,562,746	(10,181,971)
Net (loss)/ profit after tax	(886,692)	3,032,442	(3,017,546)	1,562,746	(10,181,971)

	31 December 2016 \$	31 December 2015 \$	31 December 2014 \$	31 December 2013 \$	31 December 2012 \$
Share price at start of year	1.49	0.815	0.42	0.30	0.55
Share price at end of year	1.73	1.49	0.815	0.42	0.30
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.

Remuneration 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 Audit Committee are Lt Gen Peter Leahy AC (Chairman), Mr Ian Dennis and Mr Fred Bart.

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 9 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 21 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 31 day of March 2017

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

31 March 2017

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 2016, 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

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Electro Optic Systems Holdings Limited (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Going Concern As at 31 December 2016 the consolidated entity has recorded a loss of \$886,692 (2015: profit of \$3,032,442) and had net cash used in operations of \$2,673,487 (2015: net cash provided by operating activities of \$6,964,066) as disclosed in note 1(a). Based on our current understanding of the consolidated entity, the ability of the consolidated entity and company to continue operating as going concerns is based on a number of factors relating to future performance, including: • The continued ability of the consolidated entity to deliver contracts on hand on time, to the required specification and within budgeted costs; • The likelihood of key military and government customers to make timely payments for goods supplied in accordance with contractual terms; • the future trading prospects of the consolidated entity including obtaining and successfully negotiating commercial contracts, including contracts currently under negotiation; and • The ability to raise capital from existing or new shareholders should the need arise.	Our procedures included, but were not limited to: • Challenging the underlying assumptions reflected in management's cash flow forecasts. This included agreeing assumptions to underlying documentation, sensitising key judgmental inputs and analysing and challenging cash inflows and outflows in relation to delivery of contracts and receipts from customers; • Assessing the historical accuracy of the forecasts prepared by management; and • Inquiring with management and the board as to knowledge of events and conditions that may impact the assessment on the consolidated entity's and company's ability to continue as going concerns. We also assessed the appropriateness of the related disclosures in note 1 to the financial statements.
Revenue recognition – Construction Contracts As at 31 December 2016 revenue from construction contracts accounts for approximately 30% of total Group revenue of \$8,033,495 (2015: \$10,033,087) as disclosed in note 2. Revenue is recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs incurred at the reporting date compared to management's estimation of total costs of the contract. This results in a significant level of management estimation relating to: • Forecasting total cost to complete at initiation of the contract; and • Adjustments to forecast future costs which could give rise to variances in the amount of revenue and profit/loss recognised, such as re-measures of quantities of materials required for the project completion and events or conditions that occur during the performance of or are expected to occur to complete the contract.	Our procedures included but were not limited to: • Testing the design and implementation of key controls within the budget approval process; • Assessing the budgeted costs to complete the contract through analysing total costs in comparison to similar projects undertaken, our understanding of the contract and the historical accuracy of management's estimation process; • Reviewing correspondence with construction contract customers and holding discussions with management personnel, including contract managers to challenge their knowledge of future conditions that may impact the stage of completion; and • Inspected the Group's legal and external experts' reports received on contentious matters to identify any conditions that may qualify for adjustments. We also assessed the appropriateness of the related disclosures in note 28 to the financial statements.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Inventory Obsolescence As at 31 December 2016 the carrying value of inventory is \$3,478,996 (2015: \$4,217,900) as disclosed in note 7. A substantial percentage of the Group's revenue relates to revenue from the sale of goods and construction contracts. Due to the individual nature of these contracts, inventory can be highly specific to the individual contracts. This makes the inventory susceptible to obsolescence if excessive raw materials are purchased or if technological advancement occurs.	Our audit procedures included, but were not limited to: • Testing controls relevant to the inventory obsolescence process; • Holding discussions with management regarding current inventory holdings and both contracted and potential future orders; • Obtaining current and future order 'bill of materials' worksheets to determine the inventory required to fill orders; and • Evaluating and challenging management's assessment of items that are not included in the inventory obsolescence provision based on our understanding of the parts required to complete orders. We also assessed the appropriateness of the related disclosures in note 7 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors Report, review of operations, and ASX Additional Information, which we obtained prior to the date of this auditor's report, the other information also includes the annual report (but does not include the financial report and our auditor's report thereon) which is expected to be made available to us after that date.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Directors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 19 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Electro Optic Systems Holdings Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 31 March 2017

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 31 day of March 2017

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 2016

	Note	Consolidated 31 December 2016 \$	31 December 2015 \$	Company 31 December 2016 \$	31 December 2015 \$
Revenue	2(a)	25,797,200	30,500,748	144,522	31,531
Changes in inventories of work in progress		(447,550)	843,062	-	-
Raw materials and consumables used		(10,346,026)	(14,969,882)	-	-
Employee benefits expense	2(b)	(13,600,306)	(10,586,083)	(675,940)	(361,014)
Administration expenses		(3,756,612)	(3,235,089)	(587,111)	(343,155)
Finance costs	2(b)	(27,663)	(17,100)	-	-
Depreciation and amortisation of property, plant and equipment	2(b)	(98,859)	(134,259)	-	-
Gain/(loss) on disposal of fixed assets	2(b)	(110)	7,404	-	-
Foreign exchange gains	2(b)	610,447	1,636,298	1,427	2,302
Occupancy costs		(796,222)	(742,906)	(22,478)	(21,104)
Reversal of/(provision) for non-recovery of loan	2(b)	-	-	(726,213)	4,477,386
Provision for non-recovery of investment in subsidiary		-	-	(967,649)	-
Other expenses		<u>(252,776)</u>	<u>(269,751)</u>	<u>-</u>	<u>-</u>
(Loss)/ Profit before income tax benefit	2	(2,918,477)	3,032,442	(2,833,442)	3,785,946
Income tax benefit	4	<u>2,031,785</u>	<u>-</u>	<u>2,031,785</u>	<u>-</u>
(Loss)/ Profit for the year	18	<u>(886,692)</u>	<u>3,032,442</u>	<u>(801,657)</u>	<u>3,785,946</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

	Note	Consolidated		Company	
		31	31	31	31
		December	December	December	December
		2016	2015	2016	2015
		\$	\$	\$	\$
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Exchange differences arising on translation of foreign operations		(74,898)	(315,850)	-	-
Total comprehensive (Loss)/ Profit for the year		<u>(961,590)</u>	<u>2,716,592</u>	<u>(801,657)</u>	<u>3,785,946</u>
(Loss)/ Profit per share					
Basic (cents per share)	3	(1.6)	5.3		
Diluted (cents per share)	3	(1.6)	5.3		

Notes to the financial statements are included on pages 35 to 95.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Consolidated		Company	
	Note	December 2016 \$	December 2015 \$	December 2016 \$	December 2015 \$
CURRENT ASSETS					
Cash and cash equivalents	19	8,874,967	11,894,300	4,677,620	4,279,004
Trade and other receivables	6	3,805,560	6,536,772	24,060	24,084
Inventories	7	3,478,996	4,217,900	-	-
Other	8	459,228	1,460,118	-	-
TOTAL CURRENT ASSETS		<u>16,618,751</u>	<u>24,109,090</u>	<u>4,701,680</u>	<u>4,303,088</u>
NON-CURRENT ASSETS					
Property, plant and equipment	10	459,791	155,858	-	-
TOTAL NON-CURRENT ASSETS		<u>459,791</u>	<u>155,858</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS		<u>17,078,542</u>	<u>24,264,948</u>	<u>4,701,680</u>	<u>4,303,088</u>
CURRENT LIABILITIES					
Trade and other payables	11	7,176,569	13,585,096	72,925	129,594
Provisions	12	5,553,555	6,638,938	-	-
TOTAL CURRENT LIABILITIES		<u>12,730,124</u>	<u>20,224,034</u>	<u>72,925</u>	<u>129,594</u>
NON-CURRENT LIABILITIES					
Provisions	12	301,419	289,243	-	-
TOTAL NON-CURRENT LIABILITIES		<u>301,419</u>	<u>289,243</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>13,031,543</u>	<u>20,513,277</u>	<u>72,925</u>	<u>129,594</u>
NET ASSETS		<u>4,046,999</u>	<u>3,751,671</u>	<u>4,628,755</u>	<u>4,173,494</u>
EQUITY					
Issued capital	15	75,383,567	75,383,567	75,383,567	75,383,567
Reserves	17	8,379,881	7,197,861	8,984,721	7,727,803
Accumulated losses	18	(79,716,449)	(78,829,757)	(79,739,533)	(78,937,876)
TOTAL EQUITY		<u>4,046,999</u>	<u>3,751,671</u>	<u>4,628,755</u>	<u>4,173,494</u>

Notes to the financial statements are included on pages 35 to 95.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated	Total	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve
	\$	\$	\$	\$	\$
2016					
Balance at 1 January 2016	<u>3,751,671</u>	<u>(78,829,757)</u>	<u>75,383,567</u>	<u>(529,942)</u>	<u>7,727,803</u>
(Loss) for the year	<u>(886,692)</u>	<u>(886,692)</u>	_____ -	_____ -	_____ -
Exchange differences arising on translation of foreign operations	<u>(74,898)</u>	_____ -	_____ -	<u>(74,898)</u>	_____ -
Total comprehensive (loss)/ income for the year	<u>(961,590)</u>	<u>(886,692)</u>	_____ -	<u>(74,898)</u>	_____ -
Recognition of share based payments	<u>1,256,918</u>	_____ -	_____ -	_____ -	<u>1,256,918</u>
Balance at 31 December 2016	<u>4,046,999</u>	<u>(79,716,449)</u>	<u>75,383,567</u>	<u>(604,840)</u>	<u>8,984,721</u>
2015					
Balance at 1 January 2015	<u>1,035,079</u>	<u>(81,862,199)</u>	<u>75,383,567</u>	<u>(214,092)</u>	<u>7,727,803</u>
Profit for the year	<u>3,032,442</u>	<u>3,032,442</u>	_____ -	_____ -	_____ -
Exchange differences arising on translation of foreign operations	<u>(315,850)</u>	_____ -	_____ -	<u>(315,850)</u>	_____ -
Total comprehensive income/ (loss) for the year	<u>2,716,592</u>	<u>3,032,442</u>	_____ -	<u>(315,850)</u>	_____ -
Balance at 31 December 2015	<u>3,751,671</u>	<u>(78,829,757)</u>	<u>75,383,567</u>	<u>(529,942)</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 2016 (cont)

Company	Total	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve
	\$	\$	\$	\$	\$
2016					
Balance at 1 January 2016	<u>4,173,494</u>	<u>(78,937,876)</u>	<u>75,383,567</u>	_____ -	<u>7,727,803</u>
(Loss) for the year	<u>(801,657)</u>	<u>(801,657)</u>	_____ -	_____ -	_____ -
Total comprehensive (loss) for the year	<u>(801,657)</u>	<u>(801,657)</u>	_____ -	_____ -	_____ -
Recognition of share based payments	<u>1,256,918</u>	_____ -	_____ -	_____ -	<u>1,256,918</u>
Balance at 31 December 2016	<u>4,628,755</u>	<u>(79,739,533)</u>	<u>75,383,567</u>	_____ -	<u>8,984,721</u>
2015					
Balance at 1 January 2015	<u>387,548</u>	<u>(82,723,822)</u>	<u>75,383,567</u>	_____ -	<u>7,727,803</u>
Profit for the year	<u>3,785,946</u>	<u>3,785,946</u>	_____ -	_____ -	_____ -
Total comprehensive income for the year	<u>3,785,946</u>	<u>3,785,946</u>	_____ -	_____ -	_____ -
Balance at 31 December 2015	<u>4,173,494</u>	<u>(78,937,876)</u>	<u>75,383,567</u>	_____ -	<u>7,727,803</u>

Notes to the financial statements are included on pages 35 to 95.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated 31 December 2016 \$	31 December 2015 \$	Company 31 December 2016 \$	31 December 2015 \$
Cash flows from operating activities					
Receipts from customers		26,238,130	35,963,078	-	-
Payments to suppliers and employees		(31,075,678)	(29,016,677)	(1,051,478)	(718,022)
Tax benefit received		2,031,785	-	2,031,785	-
Interest received		159,939	34,765	144,522	31,531
Interest and other costs of finance paid		(27,663)	(17,100)	-	-
Net cash inflows/(outflows) from operating activities	19(b)	<u>(2,673,487)</u>	<u>6,964,066</u>	<u>1,124,829</u>	<u>(686,491)</u>
Cash flows from investing activities					
Advances (to)/ from wholly-owned controlled entities		-	-	(726,213)	4,477,386
Proceeds from sale of property, plant and equipment		-	7,786	-	-
Payment for property, plant and equipment		(402,977)	(56,632)	-	-
Net cash (outflows)/ inflows from investing activities		<u>(402,977)</u>	<u>(48,846)</u>	<u>(726,213)</u>	<u>4,477,386</u>
Cash flows from financing activities					
Proceeds from borrowings		-	-	-	-
Repayment of borrowings		-	(1,391,248)	-	-
Net cash (outflows) from financing activities		<u>-</u>	<u>(1,391,248)</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 2016 (cont)

	Note	Consolidated 31 December 2016 \$	31 December 2015 \$	Company 31 December 2016 \$	31 December 2015 \$
Net increase/(decrease) in cash and cash equivalents		(3,076,464)	5,523,972	398,616	3,790,895
Cash and cash equivalents at the beginning of the financial year		11,894,300	5,803,264	4,279,004	488,109
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>57,131</u>	<u>567,064</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the financial year	19(a)	<u>8,874,967</u>	<u>11,894,300</u>	<u>4,677,620</u>	<u>4,279,004</u>

Notes to the financial statements are included on pages 35 to 95.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Summary of Accounting Policies

Statement of compliance

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

The financial statements were authorised for issue by the Directors on 31 March 2017.

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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 consolidated entity and the company 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 incurred a net loss during the year of \$886,692 (2015: \$3,032,442 - profit) and used net cash in operating activities of \$2,673,487 (2015: \$6,964,066 provided by). As at 31 December 2016, the consolidated entity had cash of \$8,874,967 (2015: \$11,894,300) of which \$195,127 (2015: \$1,849,580) is restricted as it secures bank guarantees on existing contracts with local and overseas customers.

The consolidated entity made the following announcements to the ASX on 27 March 2017:

- The company has completed a placement of 3,863,638 ordinary shares at \$2.20 each to sophisticated and professional investors; and
- The consolidated entity and Orbital ATK are currently negotiating a significant contract for remote weapon system products, with the scale of the proposed contract expected to be in the range AU\$150-170 million, deliverable from 2017-2020. The consolidated entity expects to reach final agreement in the near future.

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

- the continued ability of the consolidated entity to deliver contracts on hand on time, to the required specification and within budgeted costs;
- the likelihood of key military and government customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the consolidated entity including obtaining and successfully negotiating commercial contracts, including contracts currently under negotiation; and
- the ability to raise capital from existing or new shareholders should the need arise.

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

Given the current financial position, performance and prospects of the consolidated entity the directors believe it is appropriate to prepare the financial report on the going concern basis.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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. The state of completion is measured by the proportion that contract costs incurred for work performed to date as a percentage of 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 2016 (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 at the company level 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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 2016 (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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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 cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (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 recognised on 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 2016 (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 2016 (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 2016 (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 2016 (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.

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.

(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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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
Leased assets	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 2016 (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 as services are performed 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 the Black Scholes model. The expected life used in the model has been adjusted, based on management best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

(w) Interests in joint operations

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

1. Summary of Accounting Policies (cont)

(w) Interests in joint operations (cont)

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

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

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASB's applicable to the particular assets, liabilities revenues and expenses.

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

1. Summary of Accounting Policies (cont)

(x) 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 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application paragraphs.
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

The application of the above has not had any material impact on the amounts recognised in the consolidated 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 2016 (cont)****(x) 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, and the relevant amending standards	1 Jan 2018	31 Dec 2018
AASB 15 Revenue from Contracts with Customers AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 and AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15	1 Jan 2018	31 Dec 2018
AASB 16 Leases	1 Jan 2019	31 Dec 2019
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan 2017	31 Dec 2017
AASB 2016 -2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 Jan 2017	31 Dec 2017
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 Jan 2018	31 Dec 2018

The directors are still assessing the impact of AASB 15 and AASB 16. The directors anticipate that the adoption of all other 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.

(y) Critical accounting judgements

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

(y) Critical accounting judgements (cont)

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

Key sources of estimation uncertainty

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

Recoverable amount of property, plant and equipment

The directors made a critical judgement in relation to the recoverable amount of property, plant and equipment included in Note 10. Judgement is made regarding the value of second hand manufacturing equipment and the future cash flows of the cash generating units.

Deferred tax

The directors made a critical judgement in relation to not recognising the deferred tax balances described in Note 4(b). The directors do not currently consider it probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised.

Inventory obsolescence

The directors made a critical judgement in relation to the net realisable value of inventory included in note 7. Judgement is required in determining if inventory items can be utilised in projects, given the individual nature of the consolidated entity's contracts, and the specific nature of inventory items.

Warranty provision

The directors made a critical judgement in relation to the valuation of the provision for warranty costs described in Note 13. The valuation is determined based on the director's best estimate of the expenditure required to settle the consolidated entity's liability under its warranty program.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

(y) Critical accounting judgements (cont)

Construction contract revenue recognition

The directors made a critical judgement in relation to the recognition of revenue for construction contracts as described in note 28. Revenue is recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs incurred at the reporting date compared to management's estimation of total costs of the contract. Judgement is required in forecasting total cost to complete at initiation of the contract and re-measuring costs based on events or conditions that occur during the contract.

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
2. (Loss)/ Profit from operations				
(a) Revenue				
Revenue from operations consisted of the following items:				
Revenue from the sale of goods	15,597,244	17,148,688	-	-
Revenue from the rendering of services	1,882,798	2,156,290	-	-
Grant revenue	122,268	1,126,710	-	-
Construction contract revenue	<u>8,033,495</u>	<u>10,033,087</u>	<u>-</u>	<u>-</u>
	<u>25,635,805</u>	<u>30,464,775</u>	<u>-</u>	<u>-</u>
Interest revenue:				
Other	62,895	-	62,895	-
Bank deposits	<u>97,044</u>	<u>34,765</u>	<u>81,627</u>	<u>31,531</u>
	<u>159,939</u>	<u>34,765</u>	<u>144,522</u>	<u>31,531</u>
Other				
Other	<u>1,456</u>	<u>1,208</u>	<u>-</u>	<u>-</u>
	<u>25,797,200</u>	<u>30,500,748</u>	<u>144,522</u>	<u>31,531</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
2. (Loss)/ Profit from operations (cont)				
(b) (Loss)/ Profit before income tax has been arrived at after charging the following expenses:				
Borrowing costs				
Finance charges	<u>27,663</u>	<u>17,100</u>	-	-
Depreciation and amortisation – property, plant and equipment	98,859	134,259	-	-
(Recovery of)/ Provision for non-recovery of loan – wholly-owned controlled entity	-	-	726,213	(4,477,386)
Provision for non-recovery of investment in subsidiary	-	-	967,649	-
Loss/ (profit) on sale of property, plant and equipment	110	(7,404)	-	-
Foreign exchange loss (gains)	(610,477)	(1,636,298)	(1,427)	(2,302)
Operating lease rental expenses:				
Minimum lease payments	<u>585,864</u>	<u>510,951</u>	-	-
Employee benefit expense:				
Share based payments:				
Equity settled	1,256,918	-	289,269	-
Contributions to defined contribution superannuation plans	1,065,345	894,988	15,377	12,920
Other employee benefits	<u>11,278,043</u>	<u>9,691,095</u>	<u>371,294</u>	<u>348,094</u>
	<u>13,600,306</u>	<u>10,586,083</u>	<u>675,940</u>	<u>361,014</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 2016 (cont)**

	Consolidated	
	31	31
	December	December
	2016	2015
	\$	\$

3. (Loss)/ earnings per Share

Basic (loss)/ earnings per share	<u>(1.6 cents)</u>	<u>5.3 cents</u>
----------------------------------	--------------------	------------------

Basic (Loss)/ earnings per Share

(Loss)/ earnings (a)	<u>(866,692)</u>	<u>3,032,442</u>
----------------------	------------------	------------------

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

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

(b) There are no potential ordinary shares and hence diluted earnings per share is the same as basic earnings per share. The unlisted options outstanding are not in the money at 31 December 2016 and 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 2016 (cont)

	Consolidated 31 December 2016 \$	31 December 2015 \$	Company 31 December 2016 \$	31 December 2015 \$
4. Income Tax				
(a) The prima facie income tax benefit on pre-tax accounting (loss)/ profit from operations reconciles to the income tax benefit in the financial statements as follows:				
(Loss)/ earnings from operations	(2,918,477)	3,032,442	(2,833,442)	3,785,946
Income tax (benefit)/ expense calculated at 30%	(875,543)	909,733	(850,033)	1,135,784
Effect of different tax rates of subsidiaries operating in other jurisdictions	(97,421)	(83,211)	-	-
Share based payments	377,075	-	86,781	-
Non-deductible (assessable) provision for non-recovery of loan	-	-	217,864	(1,343,216)
Non-deductible provision for non-recovery of investment in subsidiary	-	-	290,295	-
R & D tax refund received	2,031,785	-	2,031,785	-
Other non-deductible/ non assessable items	(371,781)	445,309	(15,738)	7,506
	1,064,115	1,271,831	1,760,954	(199,926)
Deferred tax assets not previously recognised now brought to account	-	(1,271,831)	-	-
Unused tax losses and tax offsets not recognised as deferred tax assets	967,670	-	270,831	199,926
Income tax benefit attributable to operating (Loss)/ profit	2,031,785	-	2,031,785	-

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 2016 (cont)

Consolidated		Company	
31	31	31	31
December	December	December	December
2016	2015	2016	2015
\$	\$	\$	\$

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	19,813,114	20,555,267	5,396,649	7,157,603
Temporary differences	<u>1,756,492</u>	<u>2,078,454</u>	<u>-</u>	<u>-</u>
	<u>21,569,606</u>	<u>22,633,721</u>	<u>5,396,649</u>	<u>7,157,603</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 21.

Nature of tax funding arrangements and tax sharing agreements

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

5. Other financial assets

Non-Current – at cost

Unlisted shares in controlled entities

at cost	-	-	4,983,781	4,016,132
provision for non recovery	<u>-</u>	<u>-</u>	<u>(4,983,781)</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	-	-	967,649	-
provision for non recovery	<u>-</u>	<u>-</u>	<u>(967,649)</u>	<u>-</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 2016 (cont)

Consolidated		Company	
31	31	31	31
December	December	December	December
2016	2015	2016	2015
\$	\$	\$	\$

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 2016, 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	2,778,292	5,374,290	-	-
GST receivable	72,152	115,517	20,215	24,084
Amounts due from customers under construction contracts (Note 28)	951,271	1,046,965	-	-
Other debtors	<u>3,845</u>	<u>-</u>	<u>3,845</u>	<u>-</u>
	<u>3,805,560</u>	<u>6,536,772</u>	<u>24,060</u>	<u>24,084</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
6. Trade and other receivables (cont)				
Ageing of past due not impaired				
31-60 days	255,707	244,802	-	-
61-90 days	-	8,188	-	-
91-120 days	-	5,764	-	-
120 days +	<u>3,289</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>258,996</u>	<u>258,754</u>	<u>-</u>	<u>-</u>
Ageing of past due and impaired				
120 days +	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
7. Current Inventories				
Raw materials – at net realisable value	2,814,939	4,098,782	-	-
Finished goods	97,389	-	-	-
Work in progress – at cost	<u>566,668</u>	<u>119,118</u>	<u>-</u>	<u>-</u>
	<u>3,478,996</u>	<u>4,217,900</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
8. Other Assets				
Current				
Prepayments	<u>459,228</u>	<u>1,460,118</u>	<u>-</u>	<u>-</u>
Non-current				
Amounts due from wholly-owned controlled entity	-	-	63,265,460	62,539,247
Less Allowance for uncollectible amounts	<u>-</u>	<u>-</u>	<u>(63,265,460)</u>	<u>(62,539,247)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Movement in allowance for uncollectible amounts				
Balance at the beginning of the financial year	-	-	62,539,247	67,016,633
Provision recognised in profit and loss	-	-	-	-
Reversal of provision recognised in profit or loss	<u>-</u>	<u>-</u>	<u>726,213</u>	<u>(4,477,386)</u>
Balance at the end of the financial year	<u>-</u>	<u>-</u>	<u>63,265,460</u>	<u>62,539,247</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
9. Auditors Remuneration				
(a) Auditor of the Parent Entity				
Audit or review of the financial report	179,466	166,850	179,466	166,850
Taxation services	<u>6,195</u>	<u>5,000</u>	<u>6,195</u>	<u>5,000</u>
	<u>185,661</u>	<u>171,850</u>	<u>185,661</u>	<u>171,850</u>
(b) Other Auditor				
Audit or review of the financial report	2,929	2,912	-	-
Taxation services	<u>879</u>	<u>874</u>	<u>-</u>	<u>-</u>
	<u>3,808</u>	<u>3,786</u>	<u>-</u>	<u>-</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
10. Property, Plant and Equipment				
(a) Plant and equipment – at cost	7,889,339	7,095,548	-	-
Less accumulated depreciation and impairment	<u>(7,557,401)</u>	<u>(7,050,572)</u>	<u>-</u>	<u>-</u>
	<u>331,938</u>	<u>44,976</u>	<u>-</u>	<u>-</u>
(b) Leased assets – at cost	26,245	18,919	-	-
Less accumulated amortisation and impairment	<u>(26,245)</u>	<u>(18,919)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(c) Office equipment – at cost	4,306,943	4,219,365	-	-
Less accumulated depreciation and impairment	<u>(4,180,466)</u>	<u>(4,113,435)</u>	<u>-</u>	<u>-</u>
	<u>126,477</u>	<u>105,930</u>	<u>-</u>	<u>-</u>
(d) Furniture, fixtures and fittings – at cost	646,962	454,123	-	-
Less accumulated depreciation and impairment	<u>(645,586)</u>	<u>(449,171)</u>	<u>-</u>	<u>-</u>
	<u>1,376</u>	<u>4,952</u>	<u>-</u>	<u>-</u>
(e) Leasehold improvements – at cost	983,701	847,887	-	-
Less accumulated depreciation and impairment	<u>(983,701)</u>	<u>(847,887)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(f) Motor vehicle –at cost	13,630	-	-	-
Less accumulated depreciation and impairment	<u>(13,630)</u>	<u>-</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>459,791</u>	<u>155,858</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
10. Property, Plant and Equipment (cont)				
<u>Cost</u>				
Plant and equipment				
Balance at beginning of year	7,095,548	6,686,766	-	-
Additions	293,466	24,304	-	-
Transfers	3,746	-	-	-
Disposals	(10,793)	(114,306)	-	-
Net foreign currency exchange differences	<u>507,372</u>	<u>498,784</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>7,889,339</u>	<u>7,095,548</u>	<u>-</u>	<u>-</u>
Leased assets				
Balance at beginning of year	18,919	13,550	-	-
Net foreign currency exchange differences	<u>7,326</u>	<u>5,369</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>26,245</u>	<u>18,919</u>	<u>-</u>	<u>-</u>
Office equipment				
Balance at beginning of year	4,219,365	3,704,190	-	-
Transfers	-	(7,124)	-	-
Additions	109,511	32,328	-	-
Disposals	(981,673)	(233,254)	-	-
Net foreign currency exchange differences	<u>959,740</u>	<u>723,225</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>4,306,943</u>	<u>4,219,365</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
10. Property, Plant and Equipment (cont)				
Furniture, fixtures and fittings				
Balance at beginning of year	454,123	386,868	-	-
Disposals	23,734	(79,689)	-	-
Transfers	-	7,124	-	-
Net foreign currency exchange differences	<u>169,105</u>	<u>139,820</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>646,962</u>	<u>454,123</u>	<u>-</u>	<u>-</u>
Leasehold improvements				
Balance at beginning of year	847,887	1,398,969	-	-
Disposals	-	(907,302)	-	-
Net foreign currency exchange differences	<u>135,814</u>	<u>356,220</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>983,701</u>	<u>847,887</u>	<u>-</u>	<u>-</u>
Motor vehicle				
Balance at beginning of year	-	25,369	-	-
Transfers	13,630	-	-	-
Disposals	-	(35,422)	-	-
Net foreign currency exchange differences	<u>-</u>	<u>10,053</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>13,630</u>	<u>-</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
10. Property, Plant and Equipment (cont)				
Accumulated Depreciation/Amortisation/Impairment				
Plant and equipment				
Balance at beginning of year	(7,050,572)	(6,656,016)	-	-
Depreciation	(6,504)	(10,079)	-	-
Disposals	10,793	114,306	-	-
Transfer	(3,746)	-	-	-
Net foreign currency exchange differences	<u>(507,372)</u>	<u>(498,783)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>(7,557,401)</u>	<u>(7,050,572)</u>	<u>-</u>	<u>-</u>
Leased plant and equipment				
Balance at beginning of year	(18,919)	(13,550)	-	-
Net foreign currency exchange differences	<u>(7,326)</u>	<u>(5,369)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>(26,245)</u>	<u>(18,919)</u>	<u>-</u>	<u>-</u>
Office equipment				
Balance at beginning of year	(4,113,435)	(3,506,164)	-	-
Depreciation	(88,779)	(124,075)	-	-
Disposals	981,564	232,872	-	-
Transfers	-	7,124	-	-
Net foreign currency exchange differences	<u>(959,816)</u>	<u>(723,192)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>(4,180,466)</u>	<u>(4,113,435)</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
10. Property, Plant and Equipment (cont)				
Furniture, fixtures and fittings				
Balance at beginning of year	(449,171)	(381,811)	-	-
Depreciation	(3,576)	(105)	-	-
Disposals	(23,734)	79,689	-	-
Transfer	-	(7,124)	-	-
Net foreign currency exchange differences	(169,105)	(139,820)	-	-
Balance at end of year	(645,586)	(449,171)	-	-
Leasehold improvements				
Balance at beginning of year	(847,887)	(1,398,969)	-	-
Disposals	-	907,302	-	-
Net foreign currency exchange differences	(135,814)	(356,220)	-	-
Balance at end of year	(983,701)	(847,887)	-	-
Motor vehicle				
Balance at beginning of year	-	(25,369)	-	-
Disposals	-	35,422	-	-
Transfer	(13,630)	-	-	-
Net foreign currency exchange differences	-	(10,053)	-	-
Balance at end of year	(13,630)	-	-	-
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 2016 (cont)

10. 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 and determined an impairment (reversal) charge for the year of Nil (2015: Nil). The basis to assess for any potential impairment was fair value less cost for disposal and fair value determined by reference to an active market for second hand manufacturing equipment.

Consolidated		Company	
31	31	31	31
December	December	December	December
2016	2015	2016	2015
\$	\$	\$	\$

11. Current trade and other payables

Trade payables	1,572,571	2,553,423	9,692	9,767
Accruals	413,063	1,938,039	63,233	119,827
Unearned revenue	3,564,309	2,500,000	-	-
Amounts due to customers under construction contracts (Note 28)	<u>1,626,626</u>	<u>6,593,634</u>	<u>-</u>	<u>-</u>
	<u>7,176,569</u>	<u>13,585,096</u>	<u>72,925</u>	<u>129,594</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.

12. Provisions

Current				
Employee benefits (Note 14)	3,182,010	2,853,992	-	-
Contract losses	-	603,416	-	-
Decommissioning costs	250,000	250,000	-	-
Warranty (Note 13)	<u>2,121,545</u>	<u>2,931,530</u>	<u>-</u>	<u>-</u>
	<u>5,553,555</u>	<u>6,638,938</u>	<u>-</u>	<u>-</u>
Non-current				
Employee Benefits (Note 14)	<u>301,419</u>	<u>289,243</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$

12. Provisions (cont)

Movement in contract loss provision

Balance at 1 January	603,416	311,193	-	-
Additional provision recognised	-	255,075	-	-
(Decrease)/ Increases resulting from re-measurement	<u>(603,416)</u>	<u>37,148</u>	<u>-</u>	<u>-</u>
Balance as at 31 December	<u>-</u>	<u>603,416</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 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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
13. Warranty Provisions				
Movement in warranty provision				
Balance at 1 January	2,931,530	2,133,044	-	-
Reductions resulting from re-measurement	(2,056,864)	(717,507)	-	-
Additional provisions recognised	<u>1,246,879</u>	<u>1,515,993</u>	-	-
Balance as at 31 December	<u>2,121,545</u>	<u>2,931,530</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 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.

14. Employee Benefits

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

Provision for employee entitlements

Current (Note 12)	<u>3,182,010</u>	<u>2,853,992</u>	-	-
Non-Current (Note 12)	<u>301,419</u>	<u>289,243</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
15. Issued capital				
Balance at the beginning of the financial year – Ordinary shares	75,383,567	75,383,567	75,383,567	75,383,567
Balance at the end of the financial year	<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 2016 (cont)****16. Directors and Employee Share Option Plan**

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

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

The number of options granted is determined by the directors and takes into account 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.

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

	2016		2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at the beginning of the financial year (i)	-	-	-	-
Granted during the year (ii)	5,715,000	3.00	-	-
Exercised during the year (iii)	-	-	-	-
Lapsed during the year (iv)	-	-	-	-
Balance at the end of the financial year (v)	5,715,000	3.00	-	-
Exercisable at end of the year	-	-	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

16. Directors and Employee Share Option Plan (cont)

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2016	-	-	-	-	-
2015	-	-	-	-	-

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

(ii) Granted during the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2016					
Staff options	2,515,000	5/2/16	31/1/19	\$3.00	705,458
Director options	3,000,000	5/2/16	31/1/19	\$3.00	1,122,000
Director options	200,000	30/5/16	31/1/19	\$3.00	91,600
	<u>5,715,000</u>				<u>1,919,058</u>
2015					
None	-	-	-	-	-

Options were priced using the Black Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility over a two year period.

The following inputs were used in the model for the grants made on 5 February 2016:

Dividend yield	-
Expected volatility (linearly interpolated)	82.77%
Risk free interest rate	1.745%
Expected life of options	1,085 days
Grant date share price	\$1.18
Exercise price	\$3.00

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)****16. Directors and Employee Share Option Plan (cont)**

The following inputs were used in the model for the grant made on 30 May 2016:

Dividend yield	-
Expected volatility (linearly interpolated)	82.77%
Risk free interest rate	1.745%
Expected life of options	975 days
Grant date share price	\$1.40
Exercise price	\$3.00

(iii) Exercised during the year

There were no options exercised during the year

(iv) Lapsed during the year

No options lapsed during the year

(v) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2016					
Staff options	2,515,000	5/2/16	31/1/19	\$3.00	705,458
Director options	3,000,000	5/2/16	31/1/19	\$3.00	1,122,000
Director options	200,000	30/5/16	31/1/19	\$3.00	91,600
	<u>5,715,000</u>				<u>1,919,058</u>
2015					
None	-	-	-	-	-

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

All options granted to directors and staff vest on the basis of 50% after one year and 50 % after two years from the date of issue.

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from the employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 16 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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
17. Reserves				
Foreign currency translation	(604,840)	(529,942)	-	-
Employee equity-settled benefits	<u>8,984,721</u>	<u>7,727,803</u>	<u>8,984,721</u>	<u>7,727,803</u>
	<u>8,379,881</u>	<u>7,197,861</u>	<u>8,984,721</u>	<u>7,727,803</u>

Foreign currency translation

Balance at beginning of financial year	(529,942)	(214,092)	-	-
Translation of foreign operations	<u>(74,898)</u>	<u>(315,850)</u>	<u>-</u>	<u>-</u>
Balance at end of financial year	<u>(604,840)</u>	<u>(529,942)</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	7,727,803	7,727,803	7,727,803
Share based payment	<u>1,256,918</u>	<u>-</u>	<u>1,256,918</u>	<u>-</u>
Balance at end of financial year	<u>8,984,721</u>	<u>7,727,803</u>	<u>8,984,721</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 16 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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
18. Accumulated Losses				
Balance at beginning of financial year	(78,829,757)	(81,862,199)	(78,937,876)	(82,723,822)
Net (loss)/ profit attributable to members of the parent entity	<u>(886,692)</u>	<u>3,032,442</u>	<u>(801,657)</u>	<u>3,785,946</u>
Balance at end of financial year	<u>(79,716,449)</u>	<u>(78,829,757)</u>	<u>(79,739,533)</u>	<u>(78,937,876)</u>

19. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and cash equivalents

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
19. Notes to the Cash Flow Statement (Cont)				
Cash and cash equivalents	<u>8,874,967</u>	<u>1,894,300</u>	<u>4,677,620</u>	<u>4,279,004</u>
(b) Reconciliation of (loss)/ profit for the year to net cash flows from operating activities				
(Loss)/ Profit for the year	(886,692)	3,032,442	(801,657)	3,785,946
(Loss)/ profit on disposal of fixed assets	110	(7,404)	-	-
Equity settled share-based payments	1,256,918	-	289,269	-
Depreciation of fixed assets	98,859	134,259	-	-
Foreign exchange movements	(131,954)	(882,948)	-	-
Non-operating cash inventory purchases	-	1,391,248	-	-
Provision for non-recovery of loan	-	-	726,213	(4,477,386)
Provision for non-recovery of investment in subsidiary	-	-	967,649	-
(Increase)/decrease in assets				
Current receivables	2,731,212	947,463	24	(16,406)
Inventories	738,904	(2,740,473)	-	-
Other current assets	1,000,890	(1,021,677)	-	-
Increase/(decrease) in liabilities				
Provisions	(1,073,207)	1,386,536	-	-
Trade and other payables	(2,505,828)	1,768,717	(56,669)	21,355
Deferred income and amounts due to customers under construction contracts	<u>(3,902,699)</u>	<u>2,955,903</u>	<u>-</u>	<u>-</u>
Net cash inflows/ (outflows) from operating activities	<u>(2,673,487)</u>	<u>6,964,066</u>	<u>1,124,829</u>	<u>(686,491)</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 2016 (cont)

20. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 21.

(b) Key management personnel compensation

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

	31 December 2016 \$	31 December 2015 \$
Short term benefits	1,400,809	1,171,112
Post-employment benefits	103,786	89,859
Share based payments	955,322	-
Long term benefits	<u>92,180</u>	<u>20,834</u>
	<u>2,552,097</u>	<u>1,281,805</u>

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

	31 December 2016 \$	31 December 2015 \$
Short term benefits	363,609	337,750
Post-employment benefits	15,377	12,921
Share based payments	<u>289,269</u>	<u>-</u>
	<u>668,255</u>	<u>350,671</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 2016 (cont)

20. Related party disclosures (cont)

(c) 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.

(d) Other transactions with key management personnel

During the year, the Company paid a total of \$66,795 (2015: \$66,795) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company paid \$41,063 (2015: \$41,063) 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 (2015: \$120,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

During the year, the Company paid \$22,478 (2015: \$21,104) to Audio Pixels Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

(e) Parent entity

The parent entity in the consolidated group is Electro Optic Systems Holdings 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 2016 (cont)

21. Controlled Entities

Name of Entity	Country of Incorporation	December 2016 %	December 2015 %
Parent Entity			
Electro Optic Systems Holdings Limited	Australia #		
Controlled Entities			
Electro Optic Systems Pty Limited	Australia #	100	100
EOS Defence Systems Pty Limited (formerly 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 UAE Holdings Pty Limited	Australia #	100	-
EOS Optronics GmbH	Germany	100	100
EOS Defense Systems Pte Limited	Singapore	100	100
EOS USA, Inc. (Inc in Nevada)	USA	100	100
EOS Technologies, Inc. (Inc in Arizona)	USA	100	100
EOS Defense Systems, Inc (Inc in Arizona)	USA	100	100

These companies form part of the Australian consolidated tax entity.

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

22. Joint Operations

The group is party to a joint operation. The group has a share in the operation based on capital contributions that entitles it to a proportionate share of revenue earned from the operation.

The operation is not yet active.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

23. Contingent Liabilities

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

Consolidated		The Company	
31	31	31	31
December	December	December	December
2016	2015	2016	2015
\$	\$	\$	\$

24. Commitments

(a) Capital commitments and guarantees

An entity within the group has committed to spend up to \$504,840 (2015: \$5,000,000) under an agreement on capital infrastructure.

On 14 July 2015, the parent entity provided a guarantee to the Commonwealth of Australia for \$2,750,000 in respect of advance payments received of \$3,950,000 GST inclusive in relation to a space sector project.

(b) Operating lease commitments

Non-cancellable operating leases contracted for but not recognised in the financial statements:

Payable:

not later than one year	244,405	278,612	-	-
later than one year and not later than five years	104,242	72,160	-	-
later than five years	-	-	-	-
	<u>348,647</u>	<u>350,772</u>	<u>-</u>	<u>-</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 2017. There is an option to renew after 30 September 2017 for a further 12 months. 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 2016 (cont)

24. Commitments (cont)

Premises at 2112 N. Dragoon, Units 6 and 18, Tucson Arizona are subject to an expired lease. The company occupies the property on a month to month basis and there is no make good requirement.

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

Premises at EOS House at Mt Stromlo, Australia with a lease term which expired on 31 December 2016. There is an option to renew after 31 December 2016 for a further 5 years. The company is on month to month basis whilst a new lease is negotiated.

Premises at AITC2 Mount Stromlo, Australia for a period of 5 years to 31 August 2018. There is no option to renew after 31 August 2018. There is no option to purchase this property

Premises at 46 Bayldon Road, Queanbeyan with a lease term which expired on 2 August 2016. The company occupies the property on a month to month basis. There is no make good provision or option to purchase the property.

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.

The Commonwealth and EOS Space Systems Pty Limited (EOS) have entered into a Services Agreement (executed 10 June 2015) to provide Space Situational Awareness (SSA) Tracking Data to the Commonwealth. In addition to the Services Agreement the Commonwealth and EOS have also entered into a Lease Agreement for Defence property in Learmonth WA on which EOS is permitted to build SSA Tracking Infrastructure in order to deliver SSA Tracking Services. The term of the lease is for ten years from 26 November 2015 at an annual rental of \$1 per annum.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

25. Subsequent Events

On 27 March 2017, the Company announced a placement of 3,863,638 new ordinary shares at \$2.20 to sophisticated and professional investor clients of Petra Capital Pty Limited raising a total of \$8.5m. These funds will be used for working capital purposes.

On 3 March 2017, the Company announced that it had received a firm order for US\$7m of remote weapon system products from Orbital ATK (USA). The order is to support the purchase of long lead-time parts for a significant program requirement, pending finalisation of the main contract. On 27 March 2017, the Company announced that the parties had completed sufficient definition of the contract deliverables for the scale of the proposed contract to be determined in the range of A\$150-170 million, deliverable from 2017-2020. The parties now expect to reach final agreement within 14 days once all terms and conditions are finalised.

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

26. 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 interest rate risk that are not designated in cash flow hedges:

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	<u>8,874,967</u>	<u>11,894,300</u>	<u>4,677,620</u>	<u>4,279,004</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 2016 (cont)

26. Financial risk management objectives and policies (cont)

At 31 December 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax (loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax (Loss) Higher/(Lower)		Equity Higher/(Lower)	
	2016 \$	2015 \$	2016 \$	2015 \$
Consolidated				
+1% (100 basis points)	88,750	118,943	88,750	118,943
-.5% (50 basis points)	<u>(44,375)</u>	<u>(59,472)</u>	<u>(44,375)</u>	<u>(59,472)</u>
Company				
+1% (100 basis points)	46,776	42,790	46,776	42,790
-.5% (50 basis points)	<u>(23,888)</u>	<u>(21,395)</u>	<u>(23,888)</u>	<u>(21,395)</u>

The movements in profits are due to lower interest rates on cash balances. The cash balances were lower in 2016 than in 2015 and accordingly the sensitivity is higher.

(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 2016 (cont)

26. Financial risk management objectives and policies (cont)

At 31 December 2016, the Group had the following exposure to US\$ foreign currency:

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	3,441,828	4,527,563	25,941	12,445
Trade and other receivables	<u>1,780,300</u>	<u>2,963,484</u>	<u>-</u>	<u>-</u>
	<u>5,222,128</u>	<u>7,491,047</u>	<u>25,941</u>	<u>12,445</u>
Financial liabilities				
Trade and other payables	<u>1,100,705</u>	<u>6,068,426</u>	<u>-</u>	<u>-</u>
Net exposure	<u>4,121,423</u>	<u>1,422,621</u>	<u>25,941</u>	<u>12,445</u>

All US\$ denominated financial instruments were translated to A\$ at 31 December 2016 at the exchange rate of 0.7197 (2015: 0.7288).

At 31 December 2016, 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)	
	2016	2015	2016	2015
	\$	\$	\$	\$
Consolidated				
AUD/USD +10%	(374,675)	(129,329)	(374,675)	(129,329)
AUD/USD -5%	<u>216,917</u>	<u>74,875</u>	<u>216,017</u>	<u>74,875</u>
Company				
AUD/USD +10%	(2,358)	(1,131)	(2,358)	(1,131)
AUD/USD -5%	<u>1,365</u>	<u>655</u>	<u>1,365</u>	<u>655</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 2016 (cont)

26. 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 2016 (cont)

26. 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 \$
2016					
Other non-interest bearing liabilities	-	1,985,634	-	-	-
2015					
Other non-interest bearing liabilities	-	4,491,462	-	-	-
Company	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
2016					
Other non-interest bearing liabilities	-	<u>72,925</u>	<u>-</u>	<u>-</u>	<u>-</u>
2015					
Other non-interest bearing liabilities	-	<u>129,594</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 2016 (cont)

26. 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 \$
2016					
Non-interest bearing	-	3,668,535	-	-	-
Receivables	-	2,778,292	-	-	-
Fixed interest rate instruments	1.11	<u>5,194,227</u>	<u>-</u>	<u>17,031</u>	<u>-</u>
		<u>11,661,054</u>		<u>17,031</u>	
2015					
Non-interest bearing	-	2,446,056	-	-	-
Receivables	-	5,374,290	-	-	-
Fixed interest rate instruments	1.30	<u>9,425,032</u>	<u>-</u>	<u>32,424</u>	<u>-</u>
		<u>17,245,378</u>	<u>-</u>	<u>32,424</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 2016 (cont)

26. 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 \$
2016					
Non-interest bearing	-	39,111			
Fixed interest rate instruments	2.04	<u>4,368,508</u>			
2015					
Non-interest bearing	-	12,445	-	-	-
Fixed interest rate instruments	2.08	<u>4,258,928</u>	<u>-</u>	<u>15,199</u>	<u>-</u>

(e) Price risk

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

27. Segment Information

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

The identification of the Group's reportable segments has not changed from those disclosed in the previous 2015 Annual Report. The Group's reportable segments are Defence Systems and Space.

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

Product and Services within each Segment

Space

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

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

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

Defence Systems

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

27. Segment Information (Cont)

Segment Revenues

	Consolidated	
	31 December 2016 \$	31 December 2015 \$
Space	9,591,762	11,624,922
Defence systems	<u>16,045,499</u>	<u>18,841,061</u>
Total of all segments	25,637,261	30,465,983
Unallocated interest received	<u>159,939</u>	<u>34,765</u>
Total	<u>25,797,200</u>	<u>30,500,748</u>

Segment Results

Space	(2,146,398)	2,300,114
Defence systems	<u>367,500</u>	<u>1,423,768</u>
Total of all segments	(1,778,898)	3,723,882
Unallocated holding company costs	<u>(1,139,579)</u>	<u>(691,440)</u>
(Loss)/ profit before income tax expense	(2,918,477)	3,032,442
Income tax benefit	<u>2,031,785</u>	_____ -
(Loss)/ profit for the year	<u>(886,692)</u>	<u>3,032,442</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 four customers who provided in excess of 10% of consolidated revenue. Three customers are within the Defence segment and provided combined revenue of \$13,637,465 and one customer is in the Space segment and provided revenue of \$6,347,732.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (cont)

27. Segment Information (cont)

Segment Assets and Liabilities

	Assets		Liabilities	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
Space	1,327,933	3,857,109	7,541,602	8,614,200
Defence systems	<u>6,875,642</u>	<u>8,513,539</u>	<u>5,489,941</u>	<u>11,899,077</u>
Total all segments	8,203,575	12,370,648	13,031,543	20,513,277
Unallocated cash	<u>8,874,967</u>	<u>11,894,300</u>	—	—
Consolidated	<u>17,078,542</u>	<u>24,264,948</u>	<u>13,031,543</u>	<u>20,513,277</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	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
Space	22,537	12,315	65,491	22,628
Defence systems	<u>20,692</u>	<u>9,764</u>	<u>337,486</u>	<u>34,004</u>
Total all segments	43,229	22,079	402,977	56,632
Unallocated management	<u>55,630</u>	<u>112,180</u>	—	—
Consolidated	<u>98,859</u>	<u>134,259</u>	<u>402,977</u>	<u>56,632</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 2016 (cont)

27. Segment Information (cont)

Information on Geographical Segments

31 December 2016

Geographical Segments	Revenue from External Customers \$	Segment Assets \$	Acquisition of Segment Assets \$
Australasia	25,702,034	16,958,686	402,977
North America	93,710	113,966	-
Germany	<u>1,456</u>	<u>5,890</u>	<u>-</u>
Total	<u>25,797,200</u>	<u>17,078,542</u>	<u>402,977</u>

31 December 2015

Geographical Segments	Revenue from External Customers \$	Segment Assets \$	Acquisition of Segment Assets \$
Australasia	30,210,882	23,584,849	56,632
North America	288,643	662,273	-
Germany	<u>1,223</u>	<u>17,826</u>	<u>-</u>
Total	<u>30,500,748</u>	<u>24,264,948</u>	<u>56,632</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 2016 (cont)

	Consolidated		Company	
	31	31	31	31
	December	December	December	December
	2016	2015	2016	2015
	\$	\$	\$	\$
28. Construction Contracts				
Construction work in progress	<u>26,760,211</u>	<u>28,327,377</u>	<u>-</u>	<u>-</u>
Less				
Provision for losses	-	(603,416)	-	-
Progress billings	<u>(27,435,566)</u>	<u>(33,270,630)</u>	<u>-</u>	<u>-</u>
	<u>(675,355)</u>	<u>(5,546,669)</u>	<u>-</u>	<u>-</u>
Recognised and included in the financial statements as amounts due:				
From customers under construction contracts:				
Current (note 6)	<u>951,271</u>	<u>1,046,965</u>	<u>-</u>	<u>-</u>
To customers under construction contracts:				
Current (note 11)	<u>(1,626,626)</u>	<u>(6,593,634)</u>	<u>-</u>	<u>-</u>
	<u>(675,355)</u>	<u>(5,546,669)</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 2016 (cont)

29. 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 3, 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 114
Tucson, Arizona 85716
USA

Tel: +1 (520) 624 6399

Fax: +1 (520) 624 1906

German Operations

Ulrichsberger Str. 17
D-94469 Deggendorf
Germany
Tel: +49 991 3719 1883
Fax: +49 991 3719 1884

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 30 March 2017 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary shares
Fred Bart Group	5,309,075	8.74%
Technology Investments Pty Limited Group	3,954,185	6.51%
Northrop Grumman Space and Mission Systems Corp.	<u>5,000,000</u>	<u>8.24%</u>
	<u>14,263,260</u>	<u>23.49%</u>

VOTING RIGHTS

At 30 March 2017 there were 2,667 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 30 March 2017 the distribution of share and option holdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	832	513,522
1,001 – 5,000	1,058	2,900,497
5,001 – 10,000	327	2,704,230
10,001 – 100,000	369	11,020,571
100,001 and over	<u>81</u>	<u>43,570,744</u>
	<u>2,667</u>	<u>60,709,564</u>

There were 57 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 30 March 2017 the 20 largest ordinary shareholders held 52.34% of the total issued fully paid quoted ordinary shares of 60,709,564.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Citicorp Nominees Pty Limited	5,944,304	9.79%
2. N & J Properties Pty Limited	4,090,000	6.74%
3. Technology Transformations Pty Limited	2,754,185	4.54%
4. Emichrome Pty Limited	2,603,236	4.29%
5. Washington H. Soul Pattinson and Company	2,272,728	3.74%
6. Link Traders (Aust) Pty Limited	1,597,189	2.63%
7. CS Fourth Nominees Pty Limited	1,595,433	2.63%
8. Capitol Enterprises Limited	1,550,000	2.55%
9. A & D Wire Limited	1,457,276	2.40%
10. Technology Investments Pty Limited	1,200,000	1.98%
11. Landed Investments NZ Limited	1,010,000	1.66%
12. Emichrome Pty Limited <Super Fund A/C>	997,450	1.64%
13. HSBC Custody Nominees (Australia)	949,098	1.56%
14. Kam Superannuation Fund Pty Limited	693,000	1.14%
15. DBS Vickers Securities (Singapore) Pte Ltd	572,000	0.95%
16. Communications Power Inc (Aust) Pty Ltd	568,000	0.94%
17. Bond Street Custodians Limited	500,000	0.82%
18. ABN Amro Clearing Sydney Nominees Pty Limited	485,771	0.80%
19. Tony Peter Vucic + Diane Vucic	480,000	0.79%
20. Herron Holdings Pty Ltd	455,000	0.75%
	<u>31,774,670</u>	<u>52.34%</u>