



ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ABN 95 092 708 364

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28 February 2022

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir,

Preliminary Final Report – Listing Rule 4.3A

The Preliminary Final Report/ Appendix 4E for the year ended 31 December 2021 is attached.

Yours faithfully,

Morgan Bryant
Company Secretary

Preliminary Final Report of *Electro Optic Systems Holdings Limited* for the Financial Year Ended 31 December 2021

ACN 092 708 364

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: Financial Year ended 31 December 2021

Previous Corresponding Period: Financial Year ended 31 December 2020

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %	Amount
Revenue from ordinary activities	Up	17.5	To \$211,792,772
(Loss) from ordinary activities after tax attributable to members		N/A	To (\$16,007,056)
Net (Loss) attributable to members		N/A	To (\$16,007,056)

Dividends (Distributions)

	Amount per security	Franked amount per security
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A
Net tangible assets at 31 December 2021		\$289,905,411
Number of ordinary shares outstanding at 31 December 2021		150,914,229
NTA per ordinary share at 31 December 2021		192.10 cents
NTA per ordinary share at 31 December 2020		196.24 cents

Brief Explanation of Revenue, Net Profit and Dividends (Distributions)

Refer to Review of Operations on pages 20 to 28.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of profit or loss and other comprehensive
income for the
Financial Year ended 31 December 2021**

	Note	31 December 2021 \$	31 December 2020 \$
Revenue	2(a)	211,792,772	180,182,366
Other income	2(b)	975,161	10,085,114
Changes in inventories of work in progress and finished goods		5,662,754	(38,292,672)
Raw materials and consumables used		(119,261,192)	(77,694,633)
Employee benefits expense		(69,348,820)	(53,211,757)
Administration expenses		(26,170,696)	(19,774,924)
Amortisation of intangible assets		(2,823,476)	(2,346,628)
Interest expense	2(c)	(2,913,090)	(1,436,475)
Depreciation and impairment	2(c)	(5,634,550)	(3,045,714)
Depreciation of right of use assets		(4,984,755)	(4,165,264)
Loss on sale of fixed assets		(8,917)	(299,900)
Foreign exchange gains/(losses)	2(c)	9,797,241	(15,682,452)
Occupancy costs		(1,962,137)	(1,709,006)
Other expenses		(2,578,636)	(2,509,105)
Loss before income tax benefit	2	(7,458,341)	(29,901,050)
Income tax (expense)/benefit		(9,385,805)	4,693,154
Loss for the year		(16,844,146)	(25,207,896)
Attributable to:			
Owners of the Company		(16,007,056)	(24,402,682)
Non-controlling interests		(837,090)	(805,214)
		(16,844,146)	(25,207,896)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		1,345,235	(2,106,188)
Total comprehensive Loss for the year		(15,498,911)	(27,314,084)
Attributable to:			
Owners of the Company		(14,661,821)	(26,508,870)
Non-controlling interests		(837,090)	(805,214)
		(15,498,911)	(27,314,084)
Profit per share			
Basic (cents per share)	5	(12.25)	(19.52)
Diluted (cents per share)	5	(12.25)	(19.52)

Notes to the financial statements are included on pages 7 to 19

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of financial position
as at 31 December 2021**

	Note	Consolidated December 2021	December 2020
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		59,260,655	65,933,499
Trade and other receivables		26,713,329	35,810,801
Current tax receivable		94,820	-
Contract asset		106,843,848	124,532,902
Inventories		72,737,911	67,308,339
Other assets		<u>23,514,480</u>	<u>13,135,088</u>
TOTAL CURRENT ASSETS		<u>289,165,043</u>	<u>306,720,629</u>
NON-CURRENT ASSETS			
Trade and other receivables		-	2,063,782
Contract asset		21,452,681	13,364,148
Other assets		-	956,073
Deferred tax asset		4,452,432	11,342,664
Security deposit		28,140,759	16,671,414
Loan in associate		2,513,380	2,391,940
Right of use assets		28,601,271	20,142,641
Goodwill		14,878,316	14,878,316
Intangible assets		17,109,179	19,723,572
Property, plant and equipment		<u>56,344,034</u>	<u>29,125,518</u>
TOTAL NON-CURRENT ASSETS		<u>173,492,052</u>	<u>130,660,068</u>
TOTAL ASSETS		<u>462,657,095</u>	<u>437,380,697</u>
CURRENT LIABILITIES			
Trade and other payables		50,412,153	52,235,653
Current tax payable		-	36,736
Secured Borrowings		34,448,384	-
Lease liabilities		5,159,847	3,442,031
Provisions		<u>14,178,464</u>	<u>15,099,074</u>
TOTAL CURRENT LIABILITIES		<u>104,198,848</u>	<u>70,813,494</u>
NON-CURRENT LIABILITIES			
Lease liabilities		24,864,019	17,665,942
Provisions		<u>7,248,890</u>	<u>9,306,752</u>
TOTAL NON-CURRENT LIABILITIES		<u>32,112,909</u>	<u>26,972,694</u>
TOTAL LIABILITIES		<u>136,311,757</u>	<u>97,786,188</u>
NET ASSETS		<u>326,345,338</u>	<u>339,594,509</u>
EQUITY			
Issued capital		413,727,547	413,479,003
Reserves	3	11,759,073	8,412,642
Accumulated losses	4	<u>(96,960,542)</u>	<u>(80,953,486)</u>
Equity attributable to owners of the Company		328,526,078	340,938,159
Non-controlling interests		<u>(2,180,740)</u>	<u>(1,343,650)</u>
TOTAL EQUITY		<u>326,345,338</u>	<u>339,594,509</u>

Notes to the financial statements are included on pages 7 to 19

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated statement of changes in equity for the Financial Year ended 31 December 2021

	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Attributable to owners of the parent	Non-controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
2021							
Balance at 1 January 2021	(80,953,486)	413,479,003	(3,167,394)	11,580,036	340,938,159	(1,343,650)	339,594,509
(Loss)/ Profit for the year	<u>(16,007,056)</u>	-	-	-	<u>(16,007,056)</u>	<u>(837,090)</u>	<u>(16,844,146)</u>
Exchange differences arising on translation of foreign operations	-	-	<u>1,345,235</u>	-	<u>1,345,235</u>	-	<u>1,345,235</u>
Total comprehensive profit for the year	<u>(16,007,056)</u>	-	<u>1,345,235</u>	-	<u>(14,661,821)</u>	<u>(837,090)</u>	<u>(15,498,911)</u>
Repayment of loans in respect of 83,125 Loan Funded Share Plan shares at \$2.99 per share	-	248,544	-	-	248,544	-	248,544
Recognition of share-based payments	-	-	-	<u>2,001,196</u>	<u>2,001,196</u>	-	<u>2,001,196</u>
Balance at 31 December 2021	<u>(96,960,542)</u>	<u>413,727,547</u>	<u>(1,822,159)</u>	<u>13,581,232</u>	<u>328,526,078</u>	<u>(2,180,740)</u>	<u>326,345,338</u>
2020							
Balance at 1 January 2020	<u>(56,550,804)</u>	<u>274,311,590</u>	<u>(1,061,206)</u>	<u>10,373,224</u>	<u>227,072,804</u>	<u>(538,436)</u>	<u>226,534,368</u>
(Loss)/ Profit for the year	<u>(24,402,682)</u>	-	-	-	<u>(24,402,682)</u>	<u>(805,214)</u>	<u>(25,207,896)</u>
Exchange differences arising on translation of foreign operations	-	-	<u>(2,106,188)</u>	-	<u>(2,106,188)</u>	-	<u>(2,106,188)</u>
Total comprehensive profit for the year	<u>(24,402,682)</u>	-	<u>(2,106,188)</u>	-	<u>(26,508,870)</u>	<u>(805,214)</u>	<u>(27,314,084)</u>
Issue of 28,269,553 new shares at \$4.75 each under the institutional placement	-	127,775,501	-	-	127,775,501	-	127,775,501
Issue of 2,451,463 new shares at \$4.40 under the Share Purchase Plan	-	10,786,437	-	-	10,786,437	-	10,786,437
Repayment of loans in respect of 202,500 Loan Funded Share Plan shares at \$2.99 per share	-	605,475	-	-	605,475	-	605,475
Recognition of share-based payments	-	-	-	<u>1,206,812</u>	<u>1,206,812</u>	-	<u>1,206,812</u>
Balance at 31 December 2020	<u>(80,953,486)</u>	<u>413,479,003</u>	<u>(3,167,394)</u>	<u>11,580,036</u>	<u>340,938,159</u>	<u>(1,343,650)</u>	<u>339,594,509</u>

Notes to the financial statements are included on pages 7 to 19

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated statement of cash flows for the Financial Year ended 31 December 2021

	Note	31 December 2021 \$	31 December 2020 \$
Cash flows from operating activities			
Receipts from customers		233,415,202	107,617,093
Payments to suppliers and employees		(224,048,540)	(204,442,935)
Income tax paid		(2,627,129)	(11,968,689)
Interest and bill discounts received		30,276	671,590
Interest and other costs of finance paid		<u>(5,864,892)</u>	<u>(1,036,376)</u>
Net cash inflows/(outflows) from operating activities		<u>904,917</u>	<u>(109,159,317)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(29,006,573)	(24,554,327)
Payment for intangible assets		-	(5,166,750)
Security deposit for bonds		<u>(8,701,244)</u>	<u>(7,258,061)</u>
Net cash outflows from investing activities		<u>(37,707,817)</u>	<u>(36,979,138)</u>
Cash flows from financing activities			
Proceeds from issue of new shares		248,544	139,167,413
Repayment of lease liabilities		(4,535,810)	(3,238,674)
Proceeds from borrowings		35,000,000	-
Transaction costs related to borrowings		<u>(811,739)</u>	<u>-</u>
Net cash inflows from financing activities		<u>29,900,995</u>	<u>135,928,739</u>
Net decrease in cash and cash equivalents		(6,901,905)	(10,209,716)
Cash and cash equivalents at the beginning of the financial year		65,933,499	77,881,766
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>229,061</u>	<u>(1,738,551)</u>
Cash and cash equivalents at the end of the financial year		<u>59,260,655</u>	<u>65,933,499</u>

Notes to the financial statements are included on pages 7 to 19

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

1 (a) Basis of preparation

The preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A and disclosure requirements of ASX Appendix 4E.

The accounting policies and methods of computation adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the consolidated entity's annual financial report for the financial year ended 31 December 2020. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1 (b) New Accounting Standards

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

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

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

New and revised AASB Standards in issue but not yet effective

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

Standard/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i>	1 January 2022 (Editorial corrections in AASB 2017-5 applied from 1 January 2018)	31 December 2022
<i>AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i>	1 January 2022	31 December 2022
<i>AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of</i>	1 January 2023	31 December 2023

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Notes to the Financial Statements for the Financial Year ended 31 December 2021

Standard/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>Liabilities as Current or Non-current – Deferral of Effective Date</i>		
2021-2 <i>Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates</i>	1 January 2023	31 December 2023
2021-5 <i>Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023	31 December 2023

1 (c) Significant events and transactions-Impact of COVID-19

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

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

Significant judgement and estimates

While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement by the directors in preparing the financial report in areas such as revenue recognition, impairment assessment on goodwill and intangibles as well as the review of the expected credit losses on receivables and the collectability of contract assets. Specifically, the directors have reviewed the collectability of the contract asset as at 31 December 2021 of \$128,296,529. The directors have concluded that no provisions or adjustments to revenue should be recognised on the basis of cash received to date and the creditworthiness of the counterparty, amongst other factors. Furthermore, the directors are of the view that the estimates used in preparing this financial report are reasonable.

1 (d) Financial statements going concern

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

The consolidated entity had a loss before tax of \$7,458,341 and a net decrease in cash for the year of \$6,901,905.

In August 2021, the consolidated entity executed a one-year \$35 million working capital facility to help support the short-term cash requirements of the consolidated entity. The current expiry date of the facility is 6 September 2022. Should they deem it necessary closer to maturity, the directors will seek to negotiate an extension to the facility.

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

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

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

If the consolidated entity is unable to achieve successful outcomes in relation to the above matters, material uncertainty would exist that may cast significant doubt as to the ability of the consolidated entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

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

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

	2021 \$	2020 \$
2. Loss From Ordinary Activities		
Loss from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Revenue		
Revenue from operations consisted of the following items:		
Revenue from sale of goods	161,649,443	157,671,133
Revenue from rendering of services	<u>50,143,329</u>	<u>22,511,233</u>
	<u>211,792,772</u>	<u>180,182,366</u>

Disaggregation of revenue

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

Timing of revenue recognition

Over time

Defence segment – Sale of goods	103,058,662	120,292,034
Defence segment – Providing of services	38,680,222	15,061,354
Space segment – Providing services	3,382,834	-
Communications segment – Sale of goods	15,053,426	15,125,671
Communications segment – Providing services	<u>243,941</u>	<u>1,094,170</u>
Total Revenue recognised over time	<u>160,419,085</u>	<u>151,573,229</u>

The consolidated entity recognises revenue for its major contracts over time as the goods manufactured under these contracts do not have an alternative use for the entity, and EOS has an enforceable right to payment for performance completed to date under the contracts.

Under the consolidated entity's current primary contracts, the control of the goods transfers when the goods are delivered/accepted, or a milestone is met. The output method, based on the delivery of goods to customer or the achievement of contract milestones faithfully depicts our performance under the contracts and best depicts the pattern of transfer of goods to the customers.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2021

2. Loss From Ordinary Activities (cont)

Revenue in relation to a contract earned on a milestone basis has been adjusted for variable elements. During the 2021 year, there was a cumulative catch-up adjustment to revenue and contract assets arising from a change in the assessment of whether variable revenue was constrained.

Revenue from other material contracts is recognised using the input method by reference to costs incurred.

All other revenue is recognised at a point in time.

At a point in time

	2021	2020
	\$	\$
Communications segment – sale of goods	7,132,337	2,830,490
Communications segment – providing services	865,564	480,640
Defence segment – sale of goods	36,405,018	19,422,937
Defence segment – Providing services	5,833,698	1,570,973
Space segment – Providing services	1,137,070	4,304,097
Total Revenue recognised at a point in time	<u>51,373,687</u>	<u>28,609,137</u>
Total Revenue	<u>211,792,772</u>	<u>180,182,366</u>

(b) Other Income

Interest:		
Bank deposits	30,276	557,375
Other	425,949	114,215
Jobkeeper	-	5,773,350
Grant income	133,299	3,314,081
Other income	385,637	326,093
	<u>975,161</u>	<u>10,085,114</u>

(c) Expenses

Loss for the period includes the following expenses:

Foreign exchange (gains)/losses	(9,797,241)	15,682,452
Interest expense on lease liabilities	1,187,502	1,036,376
Interest on borrowings	975,465	-
Interest on discounting of the contract asset	750,123	400,099
Other finance costs	3,701,925	2,844,712
Amortisation of intangibles	2,823,476	2,346,628
Depreciation and impairment	5,634,550	3,045,714
Depreciation on right of use assets	4,984,755	4,165,264

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Notes to the Financial Statements for the Financial Year ended 31 December 2021

	2021	2020
	\$	\$
3. Reserves		
Foreign currency translation reserve	(1,822,159)	(3,167,394)
Employee equity settled benefits reserve	<u>13,581,232</u>	<u>11,580,036</u>
Balance at end of financial year	<u>11,759,073</u>	<u>8,412,642</u>
4. Accumulated Losses		
Balance at beginning of financial year	(80,953,486)	(56,550,804)
Net Loss for the year	<u>(16,007,056)</u>	<u>(24,402,682)</u>
Balance at end of financial year	<u>(96,960,542)</u>	<u>(80,953,486)</u>
5. Earnings Per Share		
	2021	2020
	¢ per share	¢ per share
Basic EPS	(12.25 cents)	(19.52 cents)
Diluted EPS	(12.25 cents)	(19.52 cents)
<i>Basic Earnings per Share</i>		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	2021	2020
	\$	\$
Loss (a)	(16,844,146)	(25,207,896)
	2021	2020
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share (b),(c)	137,541,922	129,164,714

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

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

- (b) The 1,830,000 unlisted options outstanding are not considered dilutive as all the conditions of exercise have not been met at the reporting date and given the consolidated entity made a loss in the year.
- (c) The 2,270,000 ordinary shares issued on 19 May 2020 at a price of \$4.75 each, the 2,500,000 ordinary shares issued on 29 May 2020 at \$4.92 each, the 860,000 ordinary shares issued on 10 August 2020 at \$5.62 each, the 150,000 ordinary shares issued on 14 October 2020 at \$5.47 each, the 1,185,000 ordinary shares issued on 15 March 2021 at \$5.27 each and the 150,000 ordinary shares issued on 31 May 2021 at \$4.06 each, under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in substance options for accounting purposes. The options are not considered dilutive given the consolidated entity made a loss in the year.

6. Contingent Liabilities and Commitments

- a) Entities within the consolidated entity are involved in contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the consolidated entity.
- b) The consolidated entity executed an offset agreement in relation to an overseas defence contract for an amount of US\$16,133,925 (A\$22,219,579) secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$3,226,785 (A\$4,443,916) and a fixed and floating charge over the assets of the consolidated entity.
- c) The consolidated entity maintains a performance bond for US\$31,635,147 (A\$43,567,801) in relation to an overseas defence sector contract. The performance bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$12,654,055 (A\$17,427,116) and a fixed and floating charge over the assets of the consolidated entity.
- d) Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and relieved from the requirement to prepare and lodge an audited financial report. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.
- e) Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, has entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to

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Notes to the Financial Statements for the Financial Year ended 31 December 2021

GBP2,000,000 as a series of convertible notes which will entitle Electro Optic Systems Pty Limited to convert these convertible notes, when advanced in full, to acquire 49% of the equity in AEI Air (Holdings) Limited. Electro Optic Systems Pty Limited has also entered into a Put and Call Option Deed with the vendors of AEI Air (Holdings) Limited to acquire a further 49% from the vendors of AEI Air (Holdings) Limited based on a profitability formula over the four year period from 1 January 2019 to 31 December 2022 and meeting various milestones. The Put and Call Option Deed also includes provisions for Electro Optic Systems Pty Limited to make vendor loans of up to GBP1,714,500 to the vendors of AEI Air (Holdings) Limited which are fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option is exercised the loans are able to offset the exercise price on settlement. At the date of this report GBP1,500,000 has been advanced under the Unsecured Convertible Note Deed and no amounts have been advanced to the vendors under the Put and Call Option Deed at their request. Electro Optic Systems Pty Limited holds no direct equity in AEI Air (Holdings) Limited at the date of this report.

7. Segment Information

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

	Revenue and other income		Segment results	
	2021 \$	2020 \$	2021 \$	2020 \$
Communications	23,567,472	19,565,922	(21,032,256)	(2,518,270)
Space	4,577,647	6,356,896	(3,858,410)	1,000,140
Defence	184,166,589	156,627,084	23,509,940	(24,824,330)
Total of all segments	212,311,708	182,549,902	(1,380,726)	(26,342,460)
Eliminations	-	-	-	-
Unallocated	456,225	7,717,578	(6,077,615)	(3,558,590)
Consolidated Loss before tax	-	-	(7,458,341)	(29,901,050)
Income tax (expense)/ benefit	-	-	(9,385,805)	4,693,154
Consolidated segment revenue and loss for the year	212,767,933	190,267,480	(16,844,146)	(25,207,896)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2021

The revenue reported above represents revenue from external customers. There were no discontinued operations during the period. The consolidated entity had two customers who each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment and provided combined revenue of \$162,180,262.

The following is an analysis of the Group's assets by reportable operating segment:

	2021	2020
	\$	\$
Communications	60,380,580	32,432,251
Space	9,157,557	4,806,956
Defence	305,717,544	317,536,578
Total segment assets	375,255,681	354,775,785
Unallocated cash and security deposit	87,401,414	82,604,912
Total assets	462,657,095	437,380,697

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

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

Product and Services within each Business Segment

Space Systems

EOS Space Systems has a range of ground products available to support the burgeoning Australian and international space markets. This includes significant investments into passive optical and laser sensing equipment at both its Mt Stromlo and Learmonth sites, which ideally positions the company to be a major contributor to the next generation of space tracking. Developments in EOS laser technology has opened aligned markets in space optical communications and various high power laser applications. Several large government programs are currently undergoing procurements in this area which have the opportunity to transform the business.

EOS also provides manufacturing and supply of various telescopes and dome enclosures for customers around the world. EOS Space Systems astrometric products are the equipment of choice for providing reliable and high-quality optical systems under demanding environmental conditions.

Defence Systems

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

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

7. Segment Information (cont'd)

Communication Systems

EOS specialises in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world.

8. Subsequent Events

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

- i. A Deed of Agreement which finalised the amounts due to OHB under the Authority to Proceed (ATP) contract which was entered into between the parties on 15 October 2021 and ran to 14 December 2021.
An amount of US\$3,000,000 (A\$4,131,588) has been recorded as a liability in other payables as at 31 December 2021 representing the full and final settlement of all amounts due to OHB for that period.
The amount of US\$3,000,000 (A\$4,131,588) has also been recorded as an addition to capital work in progress as at 31 December 2021, representing the value of the foreground IP and materials developed by or procured by OHB using these funds and transferred to SpaceLink.
- ii. A Heads of Agreement which sets out the contractual relationship between SpaceLink and OHB going forward relating to the development of Block-1 of the SpaceLink Satellite Data Relay Constellation.
Under this Agreement SpaceLink has agreed to:
 1. Pay OHB costs incurred by OHB between 1 January 2022 and 24 February 2022 with third party vendors in respect of potential deliverables for inclusion in Block-1 activity which has now been deferred. The amount payable is up to US\$7,000,000 in aggregate
 2. Offer OHB an agreement to undertake Risk Management Activities in relation to Block-1 over a 15-month period with such agreement to be on a cost-plus basis and initially funded by SpaceLink to US\$5,000,000

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

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

9. Issuance of Securities

2021

On 15 March 2021, the Company issued 1,185,000 new ordinary shares at \$5.27 each under the Loan Funded Share Plan.

On 31 May 2021, the Company issued 150,000 new ordinary shares at \$4.06 to a Director under the Loan Funded Share Plan.

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

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

No options were exercised during the period.

Issued capital as at 31 December 2021 was \$413,727,547.

2020

On 20 April 2020, the Company issued 28,269,553 new ordinary shares at \$4.75 each raising \$127,775,501, net of issuance costs.

On 14 May 2020 the Company issued 2,451,463 new ordinary shares at \$4.40 each under the Small Shareholder Plan, raising \$10,786,437.

On 19 May 2020 the Company issued 2,270,000 ordinary shares at \$4.75 each under the Loan Funded Share Plan. On 29 May 2020 the Company issued 2,500,000 ordinary shares at \$4.92 each under the Loan Funded Share Plan. On 10 August 2020 the Company issued 860,000 ordinary shares at \$5.62 each under the Loan Funded Share Plan. On 14 October 2020 the Company issued 150,000 ordinary shares at \$5.47 each under the Loan Funded Share Plan

On 19 May 2020 the Company issued 635,000 unlisted options to employees at an exercise price of \$4.75 each exercisable on or before 18 May 2025. On 16 November 2020 the Company issued 220,000 unlisted options to employees at an exercise price of \$5.82 each exercisable on or before 16 November 2025.

No options were exercised during the year.

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

10. Details of entities over which control has been gained or lost over the period

Name of Entity: Australian Missile Alliance Pty Ltd
Date of gain of control: 2 June 2021-100%
Contribution to net loss for the period: \$Nil. The entity is dormant.

Name of Entity: EOS Optical Technologies Limited
Date of gain of control: 25 November 2021-100%
Contribution to net loss for the period: \$Nil.

11. Details of Associates

Name of Entity: AEI Air (Holdings) Limited
Deemed percentage holding: The consolidated entity holds unsecured convertible notes, which are convertible into shares representing a 49% equity interest.
Aggregate share of net profits/ (losses): Nil – The investment in the associate is debt in nature and therefore the consolidated entity does not have any share in any profit (losses)

**Notes to the Financial Statements
for the Financial Year ended 31 December 2021**

12. Other Significant Information

None

13. Information on Audit or Review

This Preliminary Final report is based on accounts to which one of the following applies.

- | | |
|--|--|
| <input type="checkbox"/> The accounts have been audited. | <input type="checkbox"/> The accounts have been subject to review. |
| <input checked="" type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

The audit is currently in progress and based on the auditor's assessment of the information available at the date of this report it is likely that the audit report will contain a material uncertainty related to going concern paragraph. The audit team will continue to assess going concern and consider relevant events, additional information or changes in circumstances up until the date of the audit report.

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable

Review of Operations

1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2021

The consolidated entity (“EOS”) or (“Company”) reported an operating loss after tax of \$16,844,146 for the twelve-month period to 31 December 2021 (31 December 2020: \$25,207,896) after allowing for income tax expense of \$9,385,805 (31 December 2020: \$4,693,154 income tax benefit). Revenues from ordinary activities were \$211,792,772 (31 December 2020: \$180,182,366).

The net loss before income tax of \$7,458,341 represents a Loss Before Interest and Tax of \$4,545,251 after adjusting for interest of \$2,913,090 (refer note 2c). Foreign exchange gain of \$9,797,241 contributed to this result.

The consolidated entity reported net cash generated by operations for the twelve-month period totalling \$904,917 (31 December 2020: \$109,159,317 net cash used by operations). At 31 December 2021, the consolidated entity held cash totalling \$59,260,655 (31 December 2020: \$65,933,499).

Key elements of financial performance are:

Revenue and other income

For the year ended 31 December 2021 the Consolidated Entity recorded revenue of \$212.8m (2020: \$190.3m) representing an increase of \$22.5m (11.8%).

The increase in revenue was driven by the Defence segment (\$184.2m compared to 2020: \$156.6m - 17.6% increase) and the Communications segment (\$23.6m compared to 2020: \$19.6m – 20.5% increase). Space segment revenue fell from \$6.4m in 2020 to \$4.6m in 2021.

Consolidated revenue of \$212.8m fell slightly below the bottom end of the market guidance provided (\$215m - \$220m).

Loss before Tax

Loss before tax for the year was \$7.5m compared to a 2020 loss before tax of \$29.9m (improvement of \$22.4m).

This was driven by the revenue increase of \$31.6m, a fall in other income of \$9.1m, material costs remaining reasonably steady (fall of \$2.4m), a \$25.5m reversal in foreign exchange (2021: \$9.8m gain, 2020: \$15.7m loss), an increase in employee benefits expense of \$16.1m, an increase in administration expense of \$6.4m and an increase in interest expense of \$1.5m.

EBITDA and EBIT

EBITDA for 2021 was \$8.9m compared to an EBITDA loss of \$18.9m in 2020.

Underlying EBITDA (excl. foreign exchange gains / losses) for 2021 was a loss of \$0.9m (2020: loss of \$3.2m).

EBIT for 2021 was a loss of \$4.5m (2020: loss of \$28.5m).

Underlying EBIT (excl. foreign exchange gains / losses) for 2021 was a loss of \$14.3m (market guidance loss of \$11m to loss of \$15m) compared to a 2020 underlying EBIT loss (excl. foreign exchange gains / losses) of \$12.8m.

Foreign Exchange

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

Review of Operations

Cash

Total cash receipts for the year were \$233.4m (2020: \$107.6m). The significant increase in cash receipts was largely due to the resumption of payments under a major export contract, where EOS received cash of \$94.4m during the year.

Net cash flow from operating activities was an inflow of \$0.9m (2020: outflow of \$109.2m) driven mainly by cash receipts, a reduction in income tax paid and an increase in interest and costs of finance paid due to the new \$35m debt facility entered into during the year.

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

As referenced above, the Consolidated Entity entered into a debt facility during the year which resulted in a net cash inflow from financing of \$29.9m (2020: inflow of \$135.9m mainly due to the issue of new shares).

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

Contract Asset

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

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

As at 31 December 2021 the contract asset was \$128.3 (31 December 2020: \$137.9m). The relatively small movement in the balance masks that during the year the Consolidated Entity invoiced \$97.6m against a major export contract. This invoicing along with invoicing of other minor contracts reduced the contract asset by \$98.2m. This reduction was offset by new, un-invoiced revenue in export and domestic programs and foreign exchange adjustments leading to a small net reduction of \$9.6m.

2. COVID-19 IMPACTS IN 2021

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

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

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

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

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

Review of Operations

3. ORGANISATIONAL RESTRUCTURE

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

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

4. EOS DEFENCE SYSTEMS

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

Key results for Defence were:

- Revenue including other income of \$184.2m represents a 17.6% increase over the corresponding prior period.
- Underlying EBIT of \$15.0m compares to an underlying EBIT loss of \$9.2m in the corresponding prior period.

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

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

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

Commonwealth RWS Contract

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

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

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

Counter Unmanned Aircraft System (CUAS) Developments

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

Review of Operations

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

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

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

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

Prime Contractor for C4 EDGE Program

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

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

Marketing and Demonstrations

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

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

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

Customers are considering a future environment where significant combat power could be applied anywhere on earth without requiring a large contingent of human operators. This future capability could be based upon the application of a number of EOS-developed technologies including RWS, free space optical communications and high bandwidth satellite communications.

Review of Operations

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

4. EOS SPACE SYSTEMS

Organisational Structure

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

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

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

EM Solutions

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

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

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

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

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

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

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

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

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

Review of Operations

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

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

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

Space Technologies

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

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

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

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

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

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

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

Review of Operations

SpaceLink

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

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

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

For further details refer to the [ASX release](#) of 25 February 2022.

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

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

6. OUTLOOK

Rising Geopolitical Tensions

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

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

Relevance of EOS Technologies

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

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

Some examples of the technologies of interest are:

- Hypersonic glide missiles and hypersonic missiles with speeds of between Mach 3 and Mach 12 have been tested by two countries in the past several years requiring the development of new defensive weapon systems.

Review of Operations

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

Momentum and Headwinds

The Company enters 2022 with substantial positive momentum from 2021, as well as headwinds which emerged in 2021.

A) Positive Momentum

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

- Production volumes increased to record levels despite ongoing productivity constraints due to COVID-19 and staff shortages.
- Gross margin of the major revenue segments was at or above prior levels in 2021, with a strong improvement in group profitability.
- SpaceLink achieved advances in terms of customer development, satellite projected performance and business model profitability, and then leapt ahead with a faster, better, cheaper option to launch its space communication services.
- Management of the impacts of COVID-19 has improved, and even though the processes and procedures that were successful in 2021 may not apply efficiently to the next developments in the pandemic, a response culture has been developed.
- Supply chain performance improved in terms of reduced disruption and cost, as initial elements of lean production are implemented.
- The company restructured to two coherent P&L segments, expanded and improved management, and accelerated succession processes throughout leadership positions as required for the next stages of growth.
- Cash receipts of around \$100m were received from a Middle East customer under an existing contract, and a similar amount of receipts are expected from this program in 2022.

Review of Operations

- Revenue deferred from Q4 2021 is on track to be received in 2022, and provided Q4 2022 deliveries are maintained on schedule, could add momentum to 2022.

(B) Headwinds

The Company enters 2022 with headwinds that it is addressing:

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

2022 Outlook

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

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

This announcement has been authorised for release to ASX by Ben Greene, Director.

Further information:

Ben Greene
Group CEO

28 February 2022