ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
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Annual Financial Report

Canberra, 30 March 2023

Electro Optic Systems Holdings Limited (**EOS** or **Company**) (ASX: EOS) provides its Annual Financial Report for the year ended 31 December 2022.

Authorised for release by the board of Electro Optic Systems Holdings Limited.

Further information:

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ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS)

EOS operates in two divisions: Defence Systems and Space Systems

- Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) and C4 systems for land warfare. Its key products are next-generation remote weapon systems, vehicle turrets, counter-UAS and C4 systems.
- Space Systems includes all EOS space and communications businesses, and operates as two entities – Space Technologies and EM Solutions. Space Technologies specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space and remains integral to research and development across the group. EM Solutions provides global satellite communications services and systems.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ACN 092 708 364

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

CORPORATE DIRECTORY

Directors
Mr Garry Hounsell (Chairman)
Air Marshal Geoffrey Brown AO
The Hon Kate Lundy
Mr David Black

Chief Executive Officer
Dr Andreas Schwer

Company Secretary
Ms Leanne Ralph

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REVIEW OF OPERATIONS

1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2022

For the Consolidated Entity (“EOS”) or (“Group’’), Revenue from Continuing Operations activities was \$137.9m, representing a \$74.4m or 35% decrease on the prior comparative period (31 December 2021: \$212.3m)

The Loss After Tax, from Continuing Operations, was \$53.6m (including charges for impairment provisions), compared to a profit of \$6.7m in the prior comparative period.

Underlying EBITDA from Continuing Operations (prior to charges for impairment provisions and foreign exchange gains) was a loss of \$42.9m, compared to an Underlying EBITDA profit from Continuing Operations of \$22.8m in the prior comparative period.

The activities of a subsidiary, SpaceLink Corporation (“SpaceLink”), were discontinued during the period and a Loss After Tax from Discontinued Operations of \$62.0m was recorded. This included a loss for the period of \$34.5m and impairment charges of \$47.2m, as reported at 30 June 2022. This was partially offset by a gain of \$19.7m on the effective disposal of SpaceLink

Including the results of SpaceLink’s Discontinued Operations, EOS reported an operating Loss After Tax of \$115.6m for the year ended 31 December 2022 (31 December 2021: operating Loss After Tax of \$13.8m.)

The Consolidated Entity reported Net Cash Used by Operations for the year totalling \$51.6m (31 December 2021: \$0.2m Net Cash Generated by Operations). This included \$15.3m relating to Discontinued Operations in 2022. In addition, the Consolidated Entity reported \$28.3m of Net Cash Outflows on Investing Activities (31 December 2021: \$37.7m). This included \$11.3m relating to Discontinued Operations in 2022.

At 31 December 2022, the Consolidated Entity held cash totalling \$21.7m (31 December 2021: \$59.3m).

Key elements of financial performance are summarised below.

Revenue from Continuing Operations

For the year ended 31 December 2022 the Consolidated Entity recorded revenue from Continuing Operations of \$137.9m (31 December 2021: \$212.3m), representing a decrease of \$74.4m or 35%.

The decrease in revenue was driven by lower Defence Systems segment Revenue, down from \$184.5m in 2021 to \$105.9m in 2022, a decrease of \$78.6m. More detailed information is provided in Section 5 below.

Revenue in the Space segment increased on prior year to \$32.0m (2021: \$27.8m). This included growth in the EM Solutions business. More detailed information is provided in Section 6 below.

At 31 December 2022, the Group had a backlog order book of contracted future work of over \$300m. This represents work secured under customer contracts, mainly in Defence Systems and EM Solutions. This work is currently expected to be undertaken principally in 2023 and 2024.

Expenses from Continuing Operations

Expenses in Continuing Operations increased from $207.1m in the prior period to $215.3m in this period. This increase of $8.2m was driven by an increase in administration expenses of $7.5m (including advisory costs associated with addressing funding and related matters), increased finance costs of $7.7m, an impairment charge of $7.3m, and increases in other items totalling $15.4m and a reduction in material costs by $29.7m

During the third and fourth quarters of the year a Restructuring Program was commenced to reduce costs, improve efficiency and align resources more closely with activity levels at the end of the year. Total annual savings of $25.0m are expected to be achieved. As part of this, over 100 roles were made redundant during the year. Costs of $3.5m were incurred during the year in implementing this Restructuring Program.

Underlying EBITDA from Continuing Operations

Underlying EBITDA from Continuing Operations (prior to charges for impairment and foreign exchange gains) was a loss of $42.9m, compared to an EBITDA profit from Continuing Operations of $22.8m in the prior comparative period.

Impairments

The Group recognised an impairment charge of $54.5m during the period. This included a charge of $7.3m relating to Continued Operations and a charge of $47.2m relating to Discontinued Operations.

Provision for onerous contracts

The Discontinued Operations also recorded a provision for onerous contracts, of $2.9m.

Foreign Exchange

The results included a foreign exchange gain in the year of $12.7m (2021: gain of $9.8m), which predominantly arose on the translation of US$ assets in into Australian Dollars.

Discontinued Operations

During the year, the Company sought strategic funding partners to support continued investment in Spacelink. The company did not succeed in securing investment, and as a result the Company ceased investment in SpaceLink during the year. Accordingly, on 16 November 2022, EOS announced that SpaceLink had ceased normal operations and that an orderly wind-up process had been initiated in the United States, by way of an Assignment for the Benefit of Creditors ("ABC").

Under the ABC process, at 31 December 2022, SpaceLink was controlled by an Assignee, and the Assignee acts in the interests of creditors. As a result of the decision to cease investment, and the ABC process, EOS expects that future EOS cash outflows related to SpaceLink will be approximately nil.

SpaceLink has been treated as a Discontinued Operation. The results of Discontinued Operations include:

- Operating expenses of $34.5m arising during the year
- An impairment provision of $47.2m
- A gain arising on the Assignment and effective disposal of SpaceLink, of $19.7m, which arose when SpaceLink, with net liabilities, was put into the ABC processes noted above.

Cash Flow Used in Operating Activities

During the year, the Group had cash used in operating activities of $51.6m. Of this, $15.3m was represented by net cash used by the Discontinued Operations of SpaceLink.

Net cash used in operating activities was impacted by a reduction in Receipts from Customers from $233.9m in the prior year to $145.9m this year. The reduction was caused by projects ending and lower than expected receipts on continuing projects. In particular, due to delays in achieving contract milestones, receipts from a significant overseas customer in the Middle East were lower than expected. Payments to Suppliers and Employees of $188.6m, were down from $225.2m in the prior year.

Contract Asset

The Group recognises a contract asset, being revenue recognised on projects that has not yet been invoiced to customers. Revenue is recognised under Australian Accounting Standards. Amounts are invoiced to customers in accordance with legal arrangements specified in customer contracts.

At 31 December 2022, the Group had a contract asset totalling $164.4m, being revenue earned but not invoiced, mainly on a project with a significant overseas customer in the Middle East. The Contract Asset increased by $36.1m during the year, due to the fact more revenue was recognised during the year than was invoiced to the customer. This was because of delays in achieving contract milestones, mainly because of the impact of COVID-19 and supply chain challenges on the customer.

The Group expects to realise cash from the Contract Asset following the invoicing and collection of these amounts in future periods, in accordance with the legal arrangements specified in customer contracts.

The realisation of this asset is one of the most critical tasks for the Group. Work on this includes seeking contract amendments and other changes with customers to bring forward Cash Receipts where possible and optimising the achievement of relevant milestones.

During February 2023, a contract amendment was agreed with a significant overseas customer in the Middle East, and this is expected to help improve cash realisations in 2023 and 2024.

Contract Liabilities – Amounts Received in Advance

The Group recognises Contract Liabilities for amounts that have been received from customers as advance payments on projects. During the year, the amount of Contract Liabilities increased from $7.7m at 31 December 2021 to $22.2m at 31 December 2022.

Cash Flow Used in Investing Activities

The Group used $28.3m of net cash in investing activities during the year, including $11.4m net cash used in the Discontinued Operations of SpaceLink. In Continuing Operations, the main investing cash payments were the $11.2m paid as Security Deposits for bonds, mainly required under contracts with overseas customers, and capital expenditure of $7.9m. This was partially offset by $2.6m received on repayment of loan from an associate entity.

Funding and Cash Balances

As a result of the funds used in Operating and Investing Cash Flows, the Group was required to seek additional funding during the year.

The Group raised $14.6m in cash proceeds from the issuance of new equity share capital during the year.

The Group repaid $35.8m of Group borrowings during the year and raised $75.7m in proceeds from new borrowings. During the year, the Group established the following borrowing facilities:

- Working Capital Facility, with $20.0m principal drawn, maturing on 6 September 2023
- Working Capital Facility, with $15.0m principal drawn, maturing on 11 April 2024
- Term Loan Facility, with $35.0m principal drawn, maturing on 11 October 2025.

The total borrowings under these facilities, including capitalised initial fees and interest were $83.6m at 31 December 2022. At 31 December 2022, these facilities were fully drawn.

The facilities are secured on certain Group assets, and terms of these facilities include financial covenants, and minimum earn amounts. These are disclosed in the Notes to the Financial Statements.

The cash balance fell from $59.3m at the start of the year to $21.7m at the end of the year.

The Group continues to closely monitor the cash flow of the Group and the outlook for the business, to ensure that adequate funding is in place.

The Group will continue to regularly review and, if necessary, seek to amend the EOS capital structure to allow operations to continue.

2. CHANGES IN DIRECTORS AND MANAGEMENT

During the year, Dr Ben Greene resigned as Chief Executive Officer of the Company, and on 1 August 2022, Dr Andreas Schwer was appointed as Chief Executive Officer of the Company.

On 24 November 2022, Mr Peter Leahy AC stepped down as an Independent Non-Executive Director and Chair of the Board of Directors of the Company and Mr Garry Hounsell was appointed to both roles. Mr Robert Kaye SC was appointed as an Independent Non-Executive Director of the Company on 13 September 2022. On 31 January 2023, after the end of the year, Ms Deena Shiff stepped down from her role as an Independent Non-Executive Director of the Company. On 20 March 2023, Mr Robert Kaye SC stepped down from his role as an Independent Non-Executive Director of the Company. On 27 March 2023, after the end of the year, Dr Ben Greene stepped down from his role as a Director of the Company. Ms. Leanne Ralph was appointed Company Secretary on 25 August 2022.

In the management team, during the year, Mr Clive Cuthell was appointed as Chief Financial Officer, Mr Matt Jones was appointed Acting Executive Vice President of Defence Systems, Dr James Bennett was appointed Acting Executive Vice President of Space Systems, and Dr Ben Greene became Head of Innovation. As part of the work to reduce the size of the Executive Management Team and reduce costs, the roles of Deputy Chief Executive Officer, Chief Operating Officer and Chief Technology Officer ended during the year.

3. STRATEGIC REVIEW AND IMPLEMENTATION

During the third and fourth quarters of the year the Company commenced a strategic review, under the leadership of new Chief Executive Officer Dr Andreas Schwer. As part of this:

- A restructuring program was implemented, aimed at achieving annual cost savings of $25m. As part of this focus on cost reduction and improving profitability, over 100 roles were made redundant during the year.
- The Group ceased investment in SpaceLink and established an ABC process. As a result, EOS expects that future cash outflows related to SpaceLink will be approximately nil.

Further work is continuing in a number of areas, aimed at improving cash flow, profitability, funding, and returns, including:

- Strengthened focus on realising cash from the Group's Contract Asset. This includes seeking contract amendments with customers where possible, and optimising the achievement of relevant milestones
- Careful management of costs, in line with the Revenue and activity levels of the business
- Initiatives to secure new customer contracts, including improving sales and marketing effectiveness
- Rationing and prioritising capital expenditure, including R&D spending, towards core defence and space businesses, using commercial investment criteria.

4. STRATEGIC GROWTH PARTNERSHIPS AND/OR CAPITAL TRANSACTIONS

EOS has received approaches from several parties in relation to potential strategic growth partnerships and/or capital transactions.

During the second half of 2022, a confidential process was commenced to develop and assess potential strategic partners, having particular regard to their ability to support diversification into new geographic markets and/or to complement our existing products in existing markets. This is expected to continue during the first half of 2023. There is no certainty that any particular outcome or transaction will result from the process.

5. DETAILED BUSINESSS UNIT UPDATE - EOS DEFENCE SYSTEMS

Defence Systems had a challenging year in 2022, with Revenue falling from $184.5m in 2021 to $105.9m in 2022, a decrease of $78.6m. The decrease was caused by the impact of supply chain constraints on continuing projects, where constraints impacted customers, third party suppliers to customers, and the Defence Systems business. In addition, new projects were secured and initiated, but the impact of these was less than the impact of projects that were completed.

The main activity during the year was the manufacture and delivery of Remote Weapon Systems ("RWS") for a large customer in the Middle East. The gross margin ratio in 2022 was lower than 2021 due to changes in project mix and other items, but consistent with levels achieved in 2020.

Market Overview and Sales Activity – Defence Systems

During 2021 and 2022, some contract awards were delayed as governments deferred program awards and announcements. This was due to a range of political, economic and global geopolitical factors, including the impact of Ukraine and ongoing global supply chain issues. This meant that some opportunities that were previously expected to be signed, and commence delivering revenue, in 2022 have been delayed by customers. These opportunities are now expected to deliver order intake and revenue in 2023 and beyond.

The global market outlook strengthened as the 2022 year progressed, as many nations announced planned increases in defence spending. This may lead to increased opportunities in future.

Work continued during the year on sales opportunities, including significant projects in Australia and overseas.

In Australia, the Commonwealth of Australia has not yet published the outcome of the Defence Strategic Review. This review is expected to clarify the Australian Defence Force's ("ADF") future plans on key projects, including some that may benefit EOS. The outcome of this review is currently expected to be published before 30 June 2023. As part of this review, the ADF's plans for some projects that may benefit EOS are now expected to be announced later than previously expected.

Regarding Ukraine, EOS continues to be in active discussions and contract negotiations on the potential provision of a significant number of RWS and related components and spares. This includes opportunities for direct supply to Ukraine, and to other countries providing support to Ukraine. These opportunities have the potential to materially improve future revenue and cash flow. There is no certainty that any particular outcome or transaction will result from these discussions and negotiations.

Product Development – Defence Systems

Defence Systems continued work during the year to widen its RWS product range from its longstanding successful R400 RWS product:

- Defence Systems worked to secure an initial order for the new lightweight R150 RWS product. This new product has been completed and is now entering the marketplace. An order of fourteen R150 gimbals was received in January 2023, as part of the L3Harris Vampire program, under which the US is providing support to Ukraine. The order is for less than $10m and is expected to be completed in 2023.
- Following supply in previous years, a follow-on order was secured during the fourth quarter for fourteen new heavyweight R600 RWS, plus spares, for a customer in Southeast Asia. The R600 RWS order is being manufactured in EOS US facilities in Huntsville, Alabama. The total order is for up to $15m and is expected to be completed in 2023.
- Defence Systems also supported the integration and subsequent deployment of four R400 RWS equipped uncrewed ground vehicles (UGV) for a NATO customer. This deployment in Lithuania represents the first NATO operational deployment for a UGV equipped with lethality systems.
- Defence Systems continued to develop the new R800 RWS product with evaluation by potential customers ongoing in North America.

Defence Systems worked closely with Space Systems to further develop and demonstrate Directed Energy products. This included the 'Titanis' Counter Drone Defence System, which includes both the established RWS product, as well as new Directed Energy components. The market for these products continues to develop positively. During the year, demonstrations were held with potential customers and further discussions continue. Similar to the commercialisation program for previous EOS products, it is expected to take some time for Directed Energy products to achieve significant commercial scale.

Further product development work is intended to continue on a range of opportunities. The business is focussed on obtaining third party funding for product development work.

Supply Chain, Operations and Facilities – Defence Systems

Delivery against existing contracts in 2022 continued to be impacted by supply chain constraints. The normalisation of global supply chains has taken longer to occur than previously expected and supply chain challenges continue in many markets, impacting the timing of EOS revenue recognition. Whilst in some areas supply chain challenges have started to show signs of easing, in other areas the impact of previous challenges continues to be felt, and new challenges have emerged.

In the US, the EOS facility in Huntsville, Alabama, secured a facility clearance from the US Defence Counterintelligence Security Agency. This allows the facility to compete for classified US contracts and to work with other cleared defence contractors on classified work for the US military.

Organisational Structure – Defence Systems

During the year, Mr Grant Sanderson stepped down as CEO Defence Systems and Mr Matt Jones was appointed Acting Executive Vice President of Defence Systems.

6. DETAILED BUSINESSS UNIT UPDATE - EOS SPACE SYSTEMS

Revenue in the Space segment increased on prior year (2022: $32.0m, 2021: $27.8m). EOS Space Systems comprises two business units, Space Technologies and EM Solutions.

Space Technologies

Space Technologies delivers space domain services (providing information on objects in space) and advanced manufacturing, (which includes the design, building and deployment of telescope and observatory equipment). Space Technologies also develops technologies that support Optical Communications (using lasers) and Space Control activities.

During 2022, Space Technologies continued to grow and commercialise its technology. This included:

- Delivering satellite laser ranging services to longstanding customers.
- The award of two contracts from the United States National Oceanic and Atmospheric Administration (NOAA) government agency's Office of Space Commerce. These new contract values are for less than $1m.
- The design and build of prototype Directed Energy gimbals for a large international customer.
- Developing technology demonstrations for space control systems, under a research program funded by customers.
- Continuing to develop and demonstrate Directed Energy products and seek funding for further development activities.
- Completing the acquisition of the assets and business of KiwiStar Optics. This business produces precision optics for astronomy purposes. The consideration for the acquisition was $318,000.

Space Technologies continues to develop sales opportunities on potentially significant future projects for Australian and overseas customers. Typically, it can take up to, and more than, twelve months for opportunities to be developed and converted to signed sales agreements.

EM Solutions

EM Solutions designs, builds, deploys and maintains on-the-move satellite communication equipment systems for defence forces. EM Solutions' main products include satellite communication terminals and antennae for naval vessels and other marine applications.

During 2022, EM Solutions continued to focus on delivering growth:

- EM Solutions continued to deliver satellite communication systems to naval customers in Australia and Europe, working closely with customers to deliver leading products and continue to deliver profitable growth.
- In addition to receiving a number of smaller orders, EM Solutions signed a $26m three-year sustainment contract with the Australian Commonwealth's Capability Acquisition and Sustainment Group (CASG) for the Royal Australian Navy's existing fleet of Cobra Maritime SATCOM terminals.

EM Solutions continues to work closely with the ADF to support the Royal Australian Navy. This includes developing proposals to support the forthcoming SEA1442 Phase 5 program, under which there is an opportunity for EM Solutions to assist in the modernisation of maritime communications for the Royal Australian Navy.

Organisational Structure – Space Systems

During the year, Mr Glen Tindall finished working with the Company and Dr James Bennett was appointed as Acting Executive Vice President of Space Systems.

7. SUBSEQUENT EVENTS

There were no significant subsequent events arising after 31 December 2022 and up to the date of this report.

8. MATERIAL BUSINESS RISKS

The following is a summary of the material business risks of the Consolidated Entity. These are not listed in any order of importance and do not constitute an exhaustive list. Any of these risks may adversely impact on the financial and operating performance and prospects of the group and on the ability of the group to continue operating as a going concern.

(i) Cash Receipts, Liquidity, Borrowing Covenants, Funding and Going Concern

The group incurred a Loss Before Tax from Continuing Operations of $62.9m for the year ended 31 December 2022 and had a net cash outflow from Operating Activities of $51.6m. The group has borrowings that are repayable as follows:

- $26.9m on 6 September 2023
- $20.5m on 11 April 2024
- $52.1m on 11 October 2025

In addition, the group is required to comply with certain borrowing covenants.

The group is heavily reliant on cash collections from a single customer in the Middle East. The receipt of cash from this and other customers depends on customers making timely payments for the goods supplied in accordance with contractual terms, the continued realisation of the group's contract asset, and on the agreement of contract variations from time to time as required. In particular, the group has significant forecast Cash Receipts in April, May and June 2023.

If adequate cash is not received, including in April, May and June 2023, the group may breach borrowing covenants and/or may not have sufficient liquidity and funds to continue operations. In addition, it may be required to renegotiate with lenders and other finance providers and to complete further debt or equity raisings. There is no assurance that the group will be successful in any potential future recapitalisation and/or refinancing should this be required. If the group is unable to receive adequate cash receipts from customers, or to obtain additional funding as required, it may have a material adverse effect on the group's ability to continue operating and its ability to continue as a going concern.

The group is working to mitigate this risk to the best of its ability including by the restructuring undertaken during the second half of 2022, by regular and constructive discussions with customers including in relation to contract amendments to improve the cash collection process, by regular and constructive discussions with lenders, pro-active cash management and exploring profitable new business opportunities that, if converted, will be cash flow positive. The group has set management performance targets for cash collected in the year.

More information on this risk is included in the Financial Statements and Notes thereto.

(ii) Customer Concentration & Future Sales Revenue risks

Currently, the group's activities are concentrated with two customers in two markets and the group has a sales order backlog of over $300m. The group's ability to continue operating depends on its ability to secure profitable future sales contracts.

The Defence Strategic Review in Australia has been completed by the Federal government but not published. The outcomes of this review delayed some contract awards in 2022 and could have a material impact on future sales opportunities in Australia. The group participated in the review and made a submission to the reviewers.

The group is working to mitigate this risk to the best of its ability by implementing plans to diversify the business with new customers. The group has a detailed pipeline of potential future opportunities and has set management performance targets for new business won in the year (which may span over multiple years) and revenue delivered in the year. Management incentive schemes have been established and are updated regularly.

In 2021 and 2022, cash receipts from customers were delayed due to the unavailability of customer vehicles upon which the group's systems were to be installed. Future sales revenue and cash receipts are likely to continue to be dependent on the performance of customers and others. The group assesses this risk and takes steps to mitigate this risk, for example by securing customer contract amendments where possible.

There is no guarantee that the group will be successful in securing new sales orders, diversifying the business or mitigating potential future non-performance of customers and others.

(iii) Foreign Exchange risks

The group typically incurs costs in Australian dollars and United States dollars, and sells products priced in Australian dollars, United States dollars and other currencies. This can create a foreign exchange exposure, particularly as costs are often incurred prior to sales proceeds being received, and the group holds assets (including contract assets) denominated in foreign currency. The group works to monitor foreign exchange exposures and mitigates these by including pricing based on assumed unfavourable foreign exchange movements.

In addition, receipts and payments with foreign exchange risks are often incurred over extended periods of time, protecting the group from the impact of short-term movements in foreign exchange rates. Except for the natural hedge afforded by having operating assets in different countries, the group does not hedge foreign exchange transactions. The group may incur exchange gains and losses as a result of this approach.

(iv) Human Resources risks

During 2022 the group conducted a restructuring program and significantly reduced the group headcount. The group's ability to continue operating depends on its ability to retain and attract (where required) high quality managers and staff with skills aligned to the future needs of the group.

During 2022 some staff left the organisation and other new hires joined. The market for hiring new staff remains challenging in several key areas. The group employs a range of initiatives to attract and retain appropriate resources, including implementing remuneration strategies and other employee benefits. These are reviewed regularly.

There is no guarantee that the group will be able to retain or attract key managers and staff. This may have an adverse impact on the group's financial and operating performance.

(v) **Cyber / Information Technology risks**

The group is dependent on the performance, reliability and availability of technology platforms, data centres and technology systems, including services provided by third parties. The group operates in the defence industry and has a higher inherent Cyber / Information Technology risk profile than other organisations.

There is a risk that technology systems may be adversely affected by disruption, including by factors outside the group's control. This could lead to a prolonged disruption to the group's activities, with adverse effects on the group's products and services, operations, delivery to customers, cash receipts and net cash flows, interactions with suppliers, employees and others and on the group's reputation.

The group employs expert personnel and third-party service providers to help mitigate these risks. This includes monitoring threats and other processes. The technical nature of this risk is subject to ongoing rapid evolution. If this risk arose, there is no guarantee that the mitigation activities would be effective and in this situation, it could have an adverse effect on the ability of the group to continue operating

(vi) Geo-Political Change risks

The group is exposed to changes in geopolitical risks, including changes in the operating environment that arise from wars, terrorist acts and tensions between states that impact global security. The group operates in the defence industry and has a higher inherent geo-political risk profile than other organisations. The group is also exposed to political and economic instability in foreign markets, inconsistent product regulation by foreign agencies or governments, imposition of product tariffs and burdens, difficulty in enforcing intellectual property rights, foreign taxes, and language and other cultural barriers.

Changes in geopolitical situations or legal requirements could have an adverse impact on market development, sales opportunities, revenues, operations, costs, profits, and cash receipts and net cash flows, including the ability of customers to pay for products and services supplied. The group addresses this by monitoring global developments, including meeting with senior defence and political leaders in different countries. The group also considers potential future situations, particularly when developing and adapting market strategies and plans, as well as working to influence critical decisions through appropriate channels.

(vii) Operational Continuity and Supply Chain risks

During 2020, 2021 and 2022, the group's operations were impacted by the COVID-19 pandemic. This led to disruptions in the group's supply chain, interrupting the group's access to some materials. In particular, it also disrupted product testing and demonstrations and led to extended and ongoing delays to access to certain customer vehicles (upon which the group's systems were to be installed).

In future, the group's continuing operations may be affected by a range of factors, including the interruption of availability of materials and components caused by supply chain issues, access to operational premises and access to high-level engineering skills and personnel and to customer and supplier facilities and equipment. The group's products are also subject to obsolescence risks, including the ongoing availability of critical components that may no longer be being manufactured by suppliers.

The group continues to monitor these risks and develop plans to mitigate them, including working to source and hold inventories of critical parts. In addition, the group continues to negotiate contract amendments with customers to address the adverse financial impacts of delays in access to customer firing ranges and vehicles. There is no guarantee that the group's plans will cover all scenarios or be successful in fully mitigating these risks, should they arise in future.

(viii) Stakeholder Dissatisfaction risks

The group interacts with a wide range of stakeholders. These include customers (including various government, defence force and other buyers) suppliers, industrial partners, regulators, lenders and funding providers, employees, equity investors and others. The ongoing operation of the group depends on the level of trust and confidence of stakeholders in the group.

To improve relationships with stakeholders, the group appointed new leadership during 2022 including a new Chair of the Board of Directors, a new Chief Executive Officer and a new Chief Financial Officer. The group is working to renew and improve relationships with stakeholders and this work will continue during 2023 and 2024. There is no guarantee that the group will be able to satisfy stakeholder requirements. Ultimately this could lead to stakeholders withholding co-operation and could disrupt the group's ability to continue operating.

(ix) Product Development risks

Ongoing sales of existing products to customers require the maintenance and development of these existing products and services to ensure that they remain effective and saleable. In order to continue operating, existing products require the maintenance of legacy software, and the implementation of new software. The group employs software engineers to do this.

The group sells high technology products and services and there is the risk that fundamental technology changes occur over time rendering the group's existing products obsolete. For example, global security endeavours could become more focussed on missiles than land-based technologies, presenting a risk and an opportunity. The group addresses this by monitoring market trends and developing new technology products. Product development work is subject to risk, including that if the group does not have access to the necessary investment funding and the necessary skills and capabilities, this could disrupt product development programs and ultimately the ongoing operation of the group.

The technical and commercial development of new products depends on the assessment of evolving market needs and a range of complex factors. Product development can consume significant amounts of investment and may not result in the development of commercially viable products for extended periods of time or ever. The group's access to appropriate sources of development funding and technical, commercial and strategic capability is a key determinant of future product viability and the group may not be able to access these.

The group regularly reviews it product portfolio, evolving market trends and develops product plans to mitigate these risks. There is no guarantee that the group will be able to maintain or develop commercially viable products.

(x) ESG: Environmental, Social and Governance risks

The group is exposed to a wide range of Environmental, Social and Governance risks. The group's products (including Remote Weapons Systems) and other services may be used in ways that impact human rights. The group is required to comply with export controls in Australia, the United States and other countries and has implemented controls designed to ensure compliance.

The group is exposed to other social risks, including evolving community expectations and obligations relating to supply chain ethics, modern slavery, diversity rights and behaviour of Directors and employees. The group works to monitor social risks and take steps to monitoring evolving social expectations and ensure compliance with obligations in good time.

The group is subject to the impacts of changes in environmental requirements and compliance obligations (including reporting) and to the impacts of changes in the environment on supply chain availability. The group's activities, products and services may have an adverse impact on the environment. The group's exposure to environmental and climate change risks is set out in more detail below.

The group is exposed to governance risks, including those relating to Board governance and diversity and the ability to retain and attract Board Directors with the requisite skills and experience. In addition, there is the risk that Board review and decision-making processes may not be effective in ensuring compliance with relevant obligations and the ongoing viability of the group at all times. The Board monitors its composition, skills and processes to assess this risk and take steps to mitigate risks where possible.

ESG risks continue to evolve rapidly and there is no guarantee that the group will be able to continue to anticipate or fully mitigate these risks.

(xi) Regulatory and Legal risks

The group is subject to a wide range of regulatory and legal obligations in different countries. These include regulations relating to Export Licenses for its products, security obligations (including relating to sites, people, data and classified activities) and compliance with the requirements of the Australian Securities Exchange and the Corporations Act 2001 (Cth) in Australia (and similar legislation in other countries).

The group's relationships with counterparties (including customers, suppliers, and others) are governed by contracts and relevant legislation in Australia, the United States and other countries. In addition, the group's ongoing operations depend on continuing to meet regulatory and licencing requirements in different parts of the business and different jurisdictions. In particular, the group requires specific government permits (including Export Licences) under applicable international export laws from the country of manufacture for each export of defence equipment. Such permits are issued and occasionally withdrawn for political and strategic reasons by the issuing government. Delivery contracts must be declined or avoided if an export license is not granted and the group works to manage this risk.

There is the risk that the group could be subject to disputes, legal claims, litigation, investigations, class actions and sanctions from customers, suppliers, investors, lenders and other funding providers, regulators, governments and others. These may relate to past, current or future events or activities of the group, including actions or omissions by Directors and employees. There is no guarantee that any past, current or future such matters arising will be resolved in a way that allows the group to continue operating.

(xii) Additional Information on Climate Change and Climate-related Risks

The group is exposed to climate change and climate-related risks. Directors are responsible for providing oversight of the group's risks and opportunities in this area.

The main climate risks that the group face in the short term include compliance with evolving legislation, including reporting obligations in different jurisdictions. Reporting obligations are evolving and jurisdiction-specific and the group works to ensure compliance with these requirements. Over the medium and long term, the group has identified the risk that additional obligations will arise relating to potential mitigation of adverse environmental activity within the group's supply chains. The group has an extensive and fragmented supply chain base which is involved in the manufacture of electronic and other equipment.

The group's strategy for managing climate-related risks requires to be reviewed and updated. The group has not yet fully developed a comprehensive strategy and has not modelled different climate-related scenarios, such as a '2 degrees centigrade or lower' scenario.

The group has a risk management process which is overseen by the Directors, and this has identified ESG (including climate risks) as a risk to the group. Assessing this risk and developing mitigations and other actions (current and planned) is the responsibility of management. The Directors are responsible for monitoring compliance with the various evolving requirements (including reporting obligations), progress being made and the development of future plans.

During 2023 and 2024 the group plans to renew its climate risk goals, strategy and detailed plans, including setting metrics and targets.

9. BUSINESS OUTLOOK

In order to improve the outlook, the Company made changes detailed above, including:

- Appointing a new CEO and management team.
- Implementing a restructuring program aimed at achieving annual cost savings of $25m.
- Ceasing investment in SpaceLink to reduce future cash outflows to approximately nil.

In addition, work is continuing on several initiatives, (outlined in sections 3 to 6 above), to improve cash flow, profitability, funding, and returns.

Market & Customer Outlook

During 2022, the market outlook for EOS products continued to develop positively. This was partly due to the conflict in Ukraine and the impact on customer demand in NATO countries and other important markets.

Some contract awards that were expected in 2022 were delayed as governments deferred program awards and announcements. This was due to a range of political, economic and global geopolitical factors, including the impact of Ukraine and ongoing global supply chain issues.

EOS continues to work on potential sales opportunities, including those that were previously expected to come to fruition during 2022.

REVIEW OF OPERATIONS (continued)

Typically, EOS operates in an industry where it can take an extended period of time (including up to, and beyond, twelve months) for opportunities to be converted into signed sales contracts.

Outlook for Revenue and Cash Receipts

The Group's activities include the sale of products under a small number of relatively large projects. Typically, both the recognition of Revenue and Cash Receipts from Customers are governed by the achievement of project milestones with legal arrangements specified in customer contracts.

Changes in project timing, and the timing of the Group's Revenue and cash receipts, can arise due to unplanned changes in circumstances. This can include delays at the customer, delays at the customer's other suppliers, delays at the Group and delays at the Group's suppliers.

As noted above, at 31 December 2022, the Group had a contract asset of $164.4m, representing work done but not yet invoiced to customers. Management remains focussed on the progressive realisation of this significant asset, in the form of future Cash Receipts from Customers. This is an important aspect of improving the Group's financial position.

The level of future revenue and future cash receipts from Customers will depend on the achievement of product manufacturing and delivery milestones, compliance with detailed contractual requirements, ongoing customer relationships and the outcome of commercial discussions and negotiations. Historically, owing to a high level of customer concentration and specific contractual arrangements, both revenue and cash receipts have been difficult to predict with certainty.

The Group intends to continue providing regular updates during the year in line with its continuous disclosure obligations.

This announcement has been authorised for release to ASX by the Board of Directors.

Dr Andreas Schwer

Group CEO
30 March 2023

Reconciliation of Loss for the year to Underlying EBITDA

Continuing Operations Year ended 31 December $m	2022	2021
Profit (Loss) for the period	**(53.6)**	**6.7**
Income tax expense (benefit)	(9.3)	9.2
Profit (Loss) before tax	**(62.9)**	**15.9**
Finance costs	14.3	6.6
Impairment of assets	7.3	-
Foreign exchange (gains)	(12.7)	(9.8)
Underlying EBIT (before impairment and foreign exchange gains)	**(54.0)**	**12.7**
Depreciation & Amortisation	11.1	10.1
Underlying EBITDA (before impairment and foreign exchange gains)	**(42.9)**	**22.8**

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 2022.

In order to comply with the provisions of the *Corporations Act 2001* (Cth), 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:

Garry Hounsell

B Bus (Acc), FCA, FAICD

Independent Non-Executive Chair

Appointed: 24 November 2022

Board Committees: Nil

Experience and Expertise

Garry is currently Chair of the Commonwealth Superannuation Corporation, Chair of Helloworld Travel Limited (since 2016) and Chair of HiroBrands Limited (since December 2021). He is also a Non-Executive Director at Treasury Wine Estates Limited (since 2012), a Director of Findex (since January 2020), and a member of Commencer Capital's (formally Investec Emerging Companies) Investment Committee (since 2019).

Garry was previously the Chair of Myer Holdings Limited (2017-2020; Executive Chair Feb-Jun 2018), Chair and a Non-Executive Director of Spotless Group Holdings Limited (2014-2017), and Chair of Emitch Limited (2006-2008) and PanAust Limited (2008-2015). He was also previously an Advisory Board Member of PanAust Limited (2015-2017), Rothschild Australia Limited (2012-2017), and Investec Global Aircraft Fund (2007-2019). He was a Director at Orica Limited (2004-2013), Nufarm Limited (2004-2012), Qantas Airways Limited (2005-2015), Mitchell Communication Group Limited (2008-2010), Integral Diagnostics Limited (2015-2017), Dulux Group Limited (2010-2017) and Investec Aircraft Syndicate Limited (2012-2018). Garry was a Senior Partner at Ernst & Young (2002-2004), CEO and Managing Partner of Arthur Andersen (2001-2002) and a Partner at Arthur Andersen (1989-2002).

Garry has a Bachelor of Business (Accounting) from the Swinburne Institute of Technology (1975) and is a Fellow of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.

Directorships of other listed entities in the last three years

Treasury Wine Estates Limited (01 September 2012 to present), Helloworld Travel Limited (04 October 2016 to present), Hiro Brands Limited (06 December 2021 to present), Myer Holdings Limited (20 September 2017 to 28 October 2020).

Air Marshal Geoffrey Brown AO

BEng (Mech), MA (Strategic Studies)

Independent Non-Executive Director

Appointed: 21 April 2016

Board Committees:
Member Audit and Risk Committee
Chair Nomination and Remuneration Committee

Experience and Expertise

Geoffrey retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institution of Engineers Australia and is a Fellow of the Royal Aeronautical Society. He is Chair of the Sir Richard Williams Foundation and Chairman of the Advisory Board of CAE Asia Pacific. He is Chair of the Nomination and Remuneration Committee and a member of the Audit and Risk Committee.

Directorships of other listed entities in the last three years

Nil

The Hon Kate Lundy

HonLittD, GAICD

Independent Non-Executive Director

Appointed: 23 March 2018

Board Committees:
Member Audit and Risk Committee
Member Nomination and Remuneration Committee

Experience and Expertise

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

Kate continues to be passionate about technology and innovation. Her focus is the positive impact of technology on society, culture and the economy. In 2017, the Australian National University awarded her a Doctor of Letters (honorary doctorate) for her "exceptional contributions to advocacy and policy for information communications and technology, for the ACT and nationally."

In 2017 Ms Lundy was inducted into the Pearcey Hall of Fame for "distinguished achievement and contribution to the development and growth of the Information and Communication Technology Industry". The Pearcey Foundation is named in honour of Dr Trevor Pearcey, an outstanding Australian ICT Pioneer, notable for his leadership of the project team that built one of the world's earliest digital computers, the CSIR Mark 1, later known as CSIRAC.

Kate is a Non-Executive Director of the Australian Grand Prix Corporation, the National Roads and Motoring Association and the Cyber Security Research Centre. Kate is the Chair of the National Youth Science Forum and Deputy Chair to the Board of the Canberra Institute of Technology. Kate is also a member of ACT Defence Industry Advisory Board and ACT Defence Industry Ambassador.

Directorships of other listed entities in the last three years

Nil

David Black

BA(Hons) (Economics), FCA, MBA

Independent Non-Executive Director

Appointed: 1 January 2021

Board Committees:
Chair Audit and Risk Committee
Member Nomination and Remuneration Committee

Experience and Expertise

Before retiring from the Deloitte Touche Tohmatsu Australia partnership in 2016, David spent 25 years with Deloitte in the UK and Australia. During that time David provided services to a range of clients including in the Defence, Manufacturing and Government sectors. David's experience includes working with growing start-up businesses, multinational corporations and the boards of ASX listed entities on complex accounting, internal and external auditing, risk management, corporate governance and due diligence engagements. David previously served as the audit partner of Deloitte Touche Tohmatsu for the Company for the periods ending from June 2005 to December 2009 and June 2012 to June 2016.

Since his retirement from Deloitte, David has established a growing family business, The Coastal Brewing Company, and serves on three Government sector audit committees as the independent member, chairing one of those committees.

Directorships of other listed entities in the last three years

Nil

Lt Gen Peter Leahy AC

BA (Military Studies)

Independent Non-Executive Director

Appointed: 04 May 2009
Retired: 24 November 2022

Experience and Expertise

Peter retired from the Australian Army in July 2008 as a Lieutenant General in the position of Chief of Army. Among his qualifications he holds a BA (Military Studies) and a Master of Military Arts and Science. He is a Professor and the foundation Director of the National Security Institute at the University of Canberra. He is a member of the advisory board to Warpforge Limited. In other activities he is the Chairman of the charity Soldier On, the Red Shield Appeal Committee in the ACT, the Australian Student's Veterans Association and is a member of the Advisory Council of China Matters. He was Chairman of the Board from 27 July 2021 until his retirement on 24 November 2022. He was also Chairman of the Company's Audit and Risk Committee and a member of the Nominations and Remuneration Committee until his appointment as Chairman.

Directorships of other listed entities in the last three years

Codan Limited (19 September 2008 to 26 October 2022)

Deena Shiff

MSc (Econ), BA (Law)

Independent Non-Executive Director

Appointed: 7 December 2021
Resigned: 31 January 2023

Experience and Expertise

Deena has enjoyed a distinguished business career covering senior roles in corporate positions and the legal profession. She was the founding CEO of Telstra's corporate venture capital arm, Telstra Ventures, and Group Managing Director, Telstra Business. Previously, Deena was a partner in the leading law firm, Mallesons Stephen Jaques. She is currently Chair of the Advisory Board for the ARC Centre of Excellence for Automated Decisions and Society, Chair of the Advisory Board of the Australian Centre for China in the World, and Chair of the Australian Broadband Advisory Council.

Directorships of other listed entities in the last three years

Chair of Marley Spoon A.G. (15 June 2018 to present), Pro Medicus Limited (1 August 2020 to present), Appen Limited (15 May 2015 to 27 May 2022).

Mr Robert Kaye

LLB LLM

Independent Non-Executive Director

Appointed: 13 September 2022
Resigned: 20 March 2023

Board Committees:
Nil

Experience and Expertise

Robert is a barrister, mediator and professional Non-Executive Director. Recognised for his strategic and commercially focused advice, Mr Kaye has acted for various commercial enterprises – both public and private – across media, retail, FMCG, property development, mining and engineering sectors.

Drawing on his experience as a senior member of the NSW Bar, including serving on the Professional Conduct Committee and Equal Opportunity Committee, he has a strong emphasis on Board governance and is well versed in Board processes.

Mr Kaye has significant cross-border experience, including corporate restructuring and M&A across North America, Europe, Asia, and the Australia and New Zealand region.

In addition to his role as Non-Executive Director of Electro Optic Systems Holdings Limited, he is Chair and Non-Executive Director of Collins Foods Limited, and a Non-Executive Director of Magontec Limited, and FAR Limited. Mr Kaye was formerly Non-Executive Chair of Spicers Limited and Non-Executive Director of UGL Limited, HT&E Limited and Blue Sky Alternative Investments Limited and the Chair of the Macular Disease Foundation Australia.

Directorships of other listed entities in the last three years

Collins Foods Limited (7 October 2014 to present), Magontec Limited (29 July 2020 to present), FAR Limited (30 June 2021 to present).

Dr Ben Greene
BE (Hons), PhD in Applied Physics

Executive Director

Appointed: 11 April 2002
Resigned: 27 March 2023

Board Committees:
Nil

Experience and Expertise

Ben was involved in the formation of Electro Optic Systems Pty Limited. He is published in the subject areas of weapon system design, laser tracking, space geodesy, quantum physics, satellite design, laser remote sensing, and the metrology of time. He is Deputy Chair of the Western Pacific Laser Tracking Network (WPLTN) and has recently served as member of Australia's Prime Ministers Science, Engineering and Innovation Council (PMSEIC) and CEO of the Cooperative Research Centre for Space Environment Management.

Directorships of other listed entities in the last three years

Nil

Company Secretary

Leanne Ralph
BBus (Acc & Fin majors), FGIA, GAICD

Appointed: 23 August 2022

Leanne was appointed as Company Secretary on 23 August 2022. She is an experienced Company Secretary with over 15 years in this field and holds this position for a number of ASX-listed entities. Ms Ralph is a fellow of the Governance Institute of Australia and a Graduate Member of the Australian Institute of Directors.

Morgan Bryant
LLB, BIntST

Appointed: 28 May 2021
Resigned: 25 August 2022

Morgan was Company secretary from 28 May 2021 until 25 August 2022. Morgan holds a Bachelor of Arts in Political Science and International Studies, Bachelor of Laws and Graduate Diploma of Legal Practice and is admitted to the High Court of Australia as a Barrister and Solicitor.

Principal activities

The principal activities of the Consolidated Entity are in the space systems 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 18 of this financial report.

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. Note 1c to the financial statements details the specific factors upon which the Consolidated Entity's ability to continue as a going concern is dependent upon.

Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

Changes to the state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the financial period.

Share issues

On 4 July 2022 the Company received the net proceeds of $14.4m from the placement of 12,500,000 fully paid ordinary shares at $1.20 per share.

On 5 July 2022 the Company announced a Share Purchase Plan for existing holders which closed on 19 July 2022. The Plan resulted in the placement of a further 168,737 fully paid ordinary shares, also at $1.20 per share, raising $0.2m, which was received on 27 July 2022.

As consideration for the entry into the new term loan facility on 13 October 2022, the Company agreed to issue 7,653,040 new fully paid ordinary shares in the Company to Washington H. Soul Pattinson and Company (WHSP) for no cash consideration. The fair value of the shares issued is approximately $3.9m, based on EOS volume weighted average price in the five days prior to 13 October 2022.

Subsequent events

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

Deed of Cross Guarantee

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

Future developments

The Company will continue to operate in the space systems and defence systems businesses. Please see the review of operations for further details.

Environmental regulations

In the opinion of the Directors the Consolidated Entity is in compliance with all applicable environmental legislation and regulations.

Ethical labour

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

Diversity

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

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

The Company's current objectives are to:

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

As at 31 December 2022, the Group's gender diversity mix was as follows:

EOS Directors and Staff 2022	Number of Personnel	Female	Female%	Male	Male%
Board	7	2	29%	5	71%
Senior Management: CEO/EVP	5	0	0%	5	100%
Australia	285	58	21%	227	79%
New Zealand	9	0	0%	9	100%
Singapore	15	4	27%	11	73%
United States	41	11	27%	30	73%
United Arab Emirates	48	12	25%	36	75%
Germany	1	1	100%	0	0%
Totals	**411**	**88**	**21%**	**323**	**79%**

Commentary

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

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

- The proportion of women to total workforce has remained stable at 21% over the last 3 years.
- In 2022 (2021: nil) there were no harassment complaints reported across the Consolidated Entity.

Dividends

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

Share options

Share options granted to directors and executives

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

No options were granted to executives and employees of Electro Optic Systems Holdings Limited's subsidiaries during the year.

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

There were 720,000 unlisted options outstanding at year end, all of which were granted in previous reporting periods, as per the table below.

Options	Issue Date	Expiry Date	Exercise Price
220,000	20 June 2018	31 March 2023	$2.99
435,000	19 May 2020	18 May 2025	$4.75
65,000	15 March 2021	16 March 2026	$5.27
720,000			

No options were exercised during the year.

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

Loan Funded Share Plan ("LFSP")

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

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

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

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

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

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

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

As no Loan Funded shares were issued during the year, the Company provided no interest free loans to the Directors (2021: $609,000) and staff (2021: $6,244,950) to enable them to acquire the shares under the Loan Funded Share Plan. As a result of a number of performance conditions and shares price hurdles not being met, as well as the resignation of certain employees, 4,607,500 shares lapsed during the year. This resulted in the total amount of the loans outstanding under the Loan Funded Share Plan at year-end being $27,785,506 (2021: $50,224,331).

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

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

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

Fred Bart, Ian Dennis and Peter Leahy were assessed by the Board as good leavers upon their retirement. Therefore, they did not forfeit their loan funded shares and these are included in outstanding balances at 31 December 2022.

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

Reconciliation of Loan Funded Shares balances:

	Balance of shares outstanding at 31 December 2021	Lapses and other movements *	Balance of shares outstanding at 31 December 2022
Directors			
Mr Garry Hounsell (Chairman)	-	-	**-**
Dr Ben Greene	3,000,000	(1,000,000)	**2,000,000**
Mr David Black	150,000	-	**150,000**
Air Marshall Geoffrey Brown AO	250,000	(50,000)	**200,000**
The Hon Kate Lundy	250,000	(50,000)	**200,000**
Ms Deena Shiff	-	-	**-**
Mr Robert Kaye	-	-	**-**
Lt Gen Peter Leahy AC (Retired)	250,000	(50,000)	**200,000**
Other retired directors	450,000	(100,000)	**350,000**
Directors Total	**4,350,000**	**(1,250,000)**	**3,100,000**
Employees			
Dr James Bennett	125,000	(27,500)	**97,500**
Mr Matthew Jones	50,000	(10,000)	**40,000**
Mr Pete Short	420,000	-	**420,000**
Mr Glen Tindall	330,000	(330,000)	**-**
Mr Grant Sanderson	420,000	(45,000)	**375,000**
Mr Michael Lock	165,000	-	**165,000**
Mr Tahir Khan	100,000	(100,000)	**-**
Other senior employees	4,332,500	(1,128,125)	**3,204,375**
Employees Total	5,942,500	(1,640,625)	4,301,875
Total, Directors and Employees	**10,292,500**	**(2,890,625)**	**7,401,875**

*The following conditions were not met:

2022

- The share price hurdle of $11.50 by 31 December 2022, resulting in 1,250,000 shares issued to Directors lapsing.
- The Space Systems sector EBIT was negative in 2022, resulting in 112,500 shares issued to Space Systems staff lapsing.
- The Defence Systems sector EBIT was negative in 2022, resulting in 272,500 shares issued to Defence Systems staff lapsing.
- Certain employees resigned from subsidiaries of the Consolidated Entity, resulting in 1,255,625 shares issued to them lapsing.

2021

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

Indemnification and Insurance of Officers and Auditors

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

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

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 48 Board meetings, 5 Audit and Risk Committee meetings and 1 Nominations and Remuneration Committee meetings were held.

	Board of Directors		Audit and Risk committee		Nominations and Remuneration committee	
Directors	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
Lt Gen Peter Leahy AC[1]	47	44	-	-	1	1
Dr Ben Greene[2]	48	45	-	-	-	-
Air Marshal Geoff Brown AO	48	45	5	5	1	1
The Hon Kate Lundy	48	42	5	4	1	1
Mr David Black	48	48	5	5	1	1
Ms Deena Shiff[3]	48	47	5	5	-	-
Mr Robert Kaye[4]	12	9	-	-	-	-
Mr Garry Hounsell[5]	1	1	-	-	-	-

[1] Resigned 24 November 2022
[2] Resigned 27 March 2023
[3] Resigned 31 January 2023
[4] Appointed 13 September 2022, resigned 20 March 2023
[5] Appointed 24 November 2022

Remuneration report (Audited)

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

Mr Garry Hounsell (Chairman, Non-executive Director) (appointed 24 November 2022)
Dr Ben Greene (Chief Executive Officer until 11 July 2022, Executive Director) (resigned from the Board on 27 March 2023)
Air Marshal Geoffrey Brown AO (Non-executive Director)
The Hon Kate Lundy (Non-executive Director)
Mr David Black (Non-executive Director)
Ms Deena Shiff (Non-executive Director) (resigned 31 January 2023)
Mr Robert Kaye (Non-executive Director) (appointed 13 September 2022, resigned 20 March 2023)
Lt Gen Peter Leahy AC (Chairman, Non-executive Director) (retired 24 November 2022)

Dr Andreas Schwer (Chief Executive Officer) appointed 1 August 2022
Mr Clive Cuthell (Chief Financial Officer) commenced on 5 September 2022
Dr James Bennett (Acting EVP Space Systems Pty Limited) appointed 8 August 2022
Mr Matthew Jones (Acting EVP Defence Systems Pty Limited) appointed 11 July 2022
Mr Grant Sanderson (Chief Executive Officer - EOS Defence Systems Pty Limited) until 11 July 2022
Mr Glen Tindall (Chief Executive Officer – EOS Space Systems Pty Limited) until 11 November 2022
Mr Michael Lock (Chief Financial Officer – Electro Optic Systems Pty Limited) until 8 April 2022
Mr Pete Short (Chief Operating Officer – Electro Optic Systems Pty Limited) until 14 September 2022
Mr Tahir Khan (Acting Chief Financial Officer – Electro Optic Systems Pty Limited) from 9 April 2022 until 10 August 2022

Lt Gen Peter Leahy AC stepped down as Chairman on 24 November 2022. Mr Garry Hounsell was appointed as Chairman on the same date.

Ms Deena Shiff resigned from the Board on 31 January 2023. Mr Robert Kaye resigned from the Board on 20 March 2023. Dr Ben Greene resigned from the Board on 27 March 2023.

Mr Michael Lock left the Company on 8 April 2022. Mr Tahir Khan acted as Chief Financial Officer (CFO) from 9 April 2022 until 10 August 2022. Another manager assisted in the CFO role between 11 August and 5 September 2022 but did not meet the criteria for disclosure as KMP. Mr Clive Cuthell was appointed as CFO and commenced on 5 September 2022.

Mr Glen Tindall left the Company 11 November 2022. Dr James Bennett assumed the role of Acting EVP Space Systems Pty Limited from 8 August 2022.

Mr Grant Sanderson stepped down as Chief Executive Officer – EOS Defence Systems Pty Limited on 11 July 2022. Mr Matthew Jones assumed the role of Acting EVP Defence Systems Pty Limited on the same date.

Mr Pete Short left the Company 14 September 2022.

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

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

Remuneration report (continued)

Our response to the 2021 "first strike" against the Remuneration Report.

At the Company's last Annual General Meeting, the group failed to secure 75% support for our remuneration report. While this resolution is advisory only under the Corporations Act, the Board takes this signal from our shareholders very seriously. We have engaged with a number of our major investors to better understand their concerns and address those in our practices going forward.

We note, aside from the issues highlighted below, that that 2021 was a difficult year for the group. During 2022, a number of significant changes occurred, including:

- the appointment of Dr Andreas Schwer as Chief Executive Officer as well as the appointment of Clive Cuthell as Chief Financial Officer and a material renewal throughout the management team,
- Board renewal was undertaken including the appointment of Garry Hounsell as the Chair of the Board of Directors; and
- A deep restructuring- and rightsizing program which included a significant reduction in managerial overhead and a simplified organisation structure
- a strategic review of our business resulted in the cessation of our investment in SpaceLink, securing of new financing arrangements and execution of the Program of Change outlined to investors on 8 September 2022.

As a result of all of these changes EOS is now a simplified and focussed business, pursuing our core defence and space technology businesses with a revised market approach. The Board and management believe that these changes are in the best interests of shareholders and should help alleviate some of the more fundamental concerns investors raised.

We outline below the key remuneration concerns raised by investors and explain how we have responded:

Key concern raised	How we have responded and why
Executive pay issues	
High quantum of remuneration for Australian executives	• As part of our cost reduction initiatives, we have reduced overall workforce by 100 roles, including restructuring and reduction of the size of the senior management team by more the 50%. • At the KMP level, this team currently comprises the CEO, the CFO, the two Executive-Vice-Presidents and the Chief Innovation Officer. • These actions have reduced our overall remuneration expense. • No fixed pay increases will be provided in 2023 to Executive KMP.
Non-executive pay issues	
Management overheads were too high in the Defence Systems US subsidiary and SpaceLink	• Following a strategic review into the operations and activities of SpaceLink, the group has ceased its investment as of November 2022, ending further expenditure in relation to this business, with expected improvement to profits and cashflow in 2023. • The workforce right sizing exercise has reduced management overheads together across the business. The restructuring program implemented in 2022 is expected to deliver $25m in annual savings.
Cash flow issues	
Concerns over financial position	In addition to the increased 2023 focus on cash flow and profitability, new financing arrangements were secured in October 2022.

Remuneration report (continued)

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

Non-Executive director remuneration reflects the Company's desire to attract, motivate and retain experienced directors and to ensure their active participation in advocating for the interests of shareholders, in areas such as corporate governance, remuneration, compliance, risk and Company strategy. The size of the remuneration pool that can be paid to non-executive directors is governed by resolutions passed at a General Meeting of shareholders.

At the AGM held on 29 May 2020, shareholders approved an increase in the total non-executive director remuneration pool from $500,000 to $1,000,000 per annum. The level of director remuneration is as follows:

Role	Fee 2022	Fee 2021
Board Chair	$140,000	$140,000
Non-executive director	$70,000	$70,000
Committee Chair	-	-
Committee Member	-	-

All fees presented above include statutory superannuation. There are no anticipated changes to the level of non-executive director fees proposed for 2023.

Directors' shareholdings

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

Director	Fully paid ordinary shares	Fully paid ordinary shares restricted – LFSP
Mr Garry Hounsell	500,000	-
Lt Gen Peter Leahy AC[1]	60,077	200,000
Dr Ben Greene[2]	4,012,139	2,000,000
Air Marshal Geoffrey Brown AO	15,856	200,000
The Hon Kate Lundy	18,860	200,000
Mr David Black	12,963	150,000
Ms Deena Shiff[3]	-	-
Mr Robert Kaye[4]	112,555	-

1 Resigned 24 November 2022. These shareholdings reflect his interests as at the date of resignation.
2 Resigned 27 March 2023. These shareholdings reflect his interests as at the date of resignation.
3 Resigned 31 January 2023. These shareholdings reflect her interests as at the date of resignation.
4 Resigned 20 March 2023. These shareholdings reflect his interests as at the date of resignation.

Remuneration report (continued)

Structure

The Company's Constitution and the Australian Securities Exchange Listing Rules specify the aggregate remuneration of Non- Executive Directors shall be determined from time to time by a General Meeting of shareholders. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 29 May 2020, when shareholders approved a maximum aggregate remuneration of $1,000,000 per year excluding options.

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

Each Non-Executive Director receives a fee for serving as a Director of the Company. No additional fees are paid to any Director for serving on a committee of the Board.

Executive Director and Senior Management remuneration

Objective

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

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

Structure

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

Employment contracts

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

Remuneration report (continued)

Director remuneration

The following tables disclose the remuneration of the Directors of the Company during the year:

2022	Short term		Post-Employment	Equity		Total
	Salary & Fees $	Non-monetary $	Super-annuation $	Loan Funded Share Plan $	Other Long Term Benefits $	$
Mr Garry Hounsell	13,190	-	1,385	-	-	14,575
Lt Gen Peter Leahy AC	126,985	-	13,015	1,321	-	141,321
Dr Ben Greene*	787,170	26,163	27,500	14,700	29,216	884,749
Air Marshal Geoffrey Brown AO	63,491	-	6,509	1,470	-	71,470
The Hon Kate Lundy	63,491	-	6,509	1,470	-	71,470
Mr David Black	63,491	-	6,509	3,847	-	73,847
Ms Deena Shiff	63,491	-	6,509	-	-	70,000
Mr Robert Kaye	23,928	-	2,512	-	-	26,440
Total	**1,205,237**	**26,163**	**70,448**	**22,808**	**29,216**	**1,353,872**

*Executive Director during the financial year

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

* Executive Director during the financial year
# Includes fees of $90,000 for company secretarial and accounting consultancy services provided

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

Remuneration report (continued)

Executive remuneration

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

2022	Short term			Post-Employment	Equity			Total
	Salary & Fees $	Incentive $	Other benefits $	Superannuation $	Loan Funded Share Plan $	Other Long Term Benefits $	Termination Benefits $	$
Dr Andreas Schwer	291,666	-	41,030	-	-	-	-	332,696
Mr Clive Cuthell	171,541	100,000	26,265	27,500	-	3,171	-	328,477
Dr James Bennett	181,137	-	-	15,835	(7,109)	28,706	-	218,569
Mr Matthew Jones	167,622	-	-	16,881	(8,784)	8,197	-	183,916
Mr Michael Lock	202,117	-	-	18,831	4,301	-	-	225,249
Mr Peter Short	260,458	-	-	38,374	(20,321)	19,953	193,537	492,001
Mr Grant Sanderson	229,625	-	-	21,269	(16,549)	11,788	-	246,133
Mr Glen Tindall	338,000	-	-	22,131	-	-	-	360,131
Mr Tahir Khan	122,542	-	-	11,623	-	-	-	134,165
Total	**1,964,708**	**100,000**	**67,295**	**172,444**	**(48,462)**	**71,815**	**193,537**	**2,521,337**

Remuneration report (continued)

Executive remuneration (continued)

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

No options were granted to or exercised by any director or executive during 2022 and 2021. Ordinary shares in relation to the LFSP were granted during 2021.

Loan Funded Share Plan

Vesting Principles

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

(a) Directors and employees continue to provide services to EOS on each of the vesting dates (or such other date on which the Board makes a determination as to whether the Vesting Condition has been met); and

(b) the performance hurdles set out below are satisfied, which relate to the Company's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for Shares to vest under each Tranche; or

(c) Directors resolve to extend and/or waive performance hurdles as set out below for staff only, noting that Directors cannot resolve to extend or waive any requirements relating to Directors.

Further measures, hurdles and sale restrictions

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

Remuneration report (continued)

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

TRANCHE A (applies to 50% of the total number of Shares issues)	
Measures and hurdles	**Vested Shares can be sold after:**
(i) EBIT of $5m for 12 months ending 31 December 2018 (*met*); and (ii) a Share Price Hurdle of $4.50 by 31 December 2019 (*met*)	30 June 2020 (25% of Vested Shares)
	30 September 2020 (50% of Vested Shares)
	31 December 2020 (75% of Vested Shares)
	31 March 2021 (100% of Vested Shares)

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

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

Remuneration report (continued)

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

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

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

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

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

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

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

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

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

Under Phase 2 Directors have also imposed additional Vesting Conditions for senior employees under the terms of the LFSP which specifically relate to the performance of their business sectors within the Company. These conditions are outlined in Note 25 of the financial statements and are in addition to the above Vesting Conditions for Directors.

Remuneration report (continued)

Phase 3: Issue of shares on 15 March 2021

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

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

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

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

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

Directors have also imposed Vesting Conditions for senior employees under the terms of the LFSP which specifically relate to the performance of their business sectors within EOS. These conditions are outlined in Note 25 of the financial statements are in addition to the above Vesting Conditions for Directors.

Remuneration report (continued)

Phase 4: Issue of shares on 31 May 2021

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

<table>
<tr><th colspan="3">TRANCHE A (applies to 50% of the total number of Shares issued)</th></tr>
<tr><th>Measures and hurdles</th><th>Vesting period</th><th>Vested Shares can be sold after:</th></tr>
<tr><td rowspan="4">A share Price Hurdle of $9.50 by 30 June 2023 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2023)</td><td rowspan="4">The period of two calendar years ending 30 June 2023</td><td>30 June 2023
(25% of Vested Shares)</td></tr>
<tr><td>30 September 2023
(50% of Vested Shares)</td></tr>
<tr><td>31 December 2023
(75% of Vested Shares)</td></tr>
<tr><td>31 March 2024
(100% of Vested Shares)</td></tr>
</table>

<table>
<tr><th colspan="3">TRANCHE B (applies to 50% of the total number of Shares issued)</th></tr>
<tr><th>Measures and hurdles</th><th>Vesting period</th><th>Vested Shares can be sold after:</th></tr>
<tr><td rowspan="4">A Share Price Hurdle of $11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025)</td><td rowspan="4">The period of four calendar years ending 30 June 2025</td><td>30 June 2025
(25% of Vested Shares)</td></tr>
<tr><td>30 September 2025
(50% of Vested Shares)</td></tr>
<tr><td>31 December 2025
(75% of Vested Shares)</td></tr>
<tr><td>31 March 2026
(100% of Vested Shares)</td></tr>
</table>

Remuneration report (continued)

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

	Number of shares				
	1 January 2022	Purchased during the year	Sold during the year	Ceased to be KMP	31 December 2022
Mr Garry Hounsell	-	500,000	-	-	500,000
Lt Gen Peter Leahy AC[1]	60,077	4,166	-	64,243	-
Dr Ben Greene	3,987,139	25,000	-	-	4,012,139
Air Marshal Geoffrey Brown AO	19,335	2,083	5,562	-	15,856
The Hon Kate Lundy	6,694	12,166	-	-	18,860
Mr David Black	10,880	2,083	-	-	12,963
Ms Deena Shiff[2]	-	-	-	-	-
Mr Robert Kaye[3]	-	112,555	-	-	112,555
Dr Andreas Schwer	-	-	-	-	-
Mr Clive Cuthell	-	-	-	-	-
Dr James Bennett	-	-	-	-	-
Mr Matthew Jones	-	2,696	899	-	1,797
Mr Grant Sanderson	-	-	-	-	-
Mr Pete Short	937	-	937	-	-
Mr Glen Tindall	-	-	-	-	-
Mr Michael Lock	24,000	-	-	24,000	-
Mr Tahir Khan	-	-	-	-	-
Total	**4,109,062**	**660,749**	**7,398**	**88,243**	**4,674,170**

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

	Number of shares					
	1 January 2022	Purchased during the year	Sold during the year	Lapsed during the year	Ceased to be KMP	31 December 2022
Mr Garry Hounsell	-	-	-	-	-	-
Dr Ben Greene	3,000,000	-	-	(1,000,000)	-	2,000,000
Lt Gen Peter Leahy AC[1]	250,000	-	-	-	(250,000)	-
Air Marshal Geoffrey Brown AO	250,000	-	-	(50,000)	-	200,000
The Hon Kate Lundy	250,000	-	-	(50,000)	-	200,000
Mr David Black	150,000	-	-	-	-	150,000
Ms Deena Shiff[2]	-	-	-	-	-	-
Mr Robert Kaye[3]	-	-	-	-	-	-
Mr Andreas Schwer	-	-	-	-	-	-
Mr Clive Cuthell	-	-	-	-	-	-
Dr James Bennett	125,000	-	-	(27,500)	-	97,500
Mr Matthew Jones	50,000	-	-	(10,000)	-	40,000
Mr Michael Lock	165,000	-	-	-	(165,000)	-
Mr Grant Sanderson	420,000	-	-	(45,000)	(375,000)	-
Mr Pete Short	420,000	-	-	-	(420,000)	-
Mr Glen Tindall	330,000	-	-	(330,000)	-	-
Mr Tahir Khan	100,000	-	-	(100,000)	-	-
Total	**5,510,000**	**-**	**-**	**(1,612,500)**	**(1,210,000)**	**2,687,500**

[1] Retired on 24 November 2022
[2] Resigned on 31 January 2023
[3] Resigned on 20 March 2023

Remuneration report (continued)

Elements of remuneration related to performance

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

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

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

Other transactions with key management personnel

In December 2022, an invoice amount of $14,575 from Latour Pty Ltd, a company associated with Mr Garry Hounsell, in respect of directors' fees and superannuation for Garry Hounsell, was accrued and subsequently paid in January 2023.

During the year, the Company paid $70,000 (2021: $70,000) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors' fees and superannuation for Geoff Brown.

During the year, the Company paid $70,000) (2021: $17,500) to Technology Innovation Partners Pty Ltd, a company associated with Ms Kate Lundy in respect of directors' fees and superannuation for Kate Lundy.

During the year, no amounts were paid to 4F Investments Pty Limited (2021: $105,000), a company associated with Mr Fred Bart in respect of directors' fees and superannuation for Fred Bart, a former Director.

During the year, no amounts were paid to Dennis Corporate Services Pty Limited (2021: $29,166), a company associated with Mr Ian Dennis in respect of directors' fees and superannuation for Ian Dennis, a former Director.

During the year, no amounts were paid to Dennis Corporate Services Pty Limited (2021: $90,000), a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

Remuneration report (continued)

Company performance and shareholder returns, last five financial years

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

	31 December 2022 $'000	31 December 2021 $'000	31 December 2020 $'000	31 December 2019 $'000	31 December 2018 $'000
Revenue	137,912	212,331	180,182	165,385	87,130
Net (loss)/profit before tax	(124,839)	(4,612)	(29,901)	21,397	15,081
Net (loss)/profit after tax	(115,561)	(13,843)	(25,208)	17,643	15,081

	31 December 2022 $	31 December 2021 $	31 December 2020 $	31 December 2019 $	31 December 2018 $
Share price at start of year	2.34	5.91	7.42	2.45	2.45
Share price at end of year	0.49	2.34	5.91	7.42	2.45
Dividends paid	-	-	-	-	-

Audit and Risk Committee

The current members of the Committee during the year were Mr David Black (Chairman), Air Marshal Geoffrey Brown AO, the Hon Kate Lundy and Ms Deena Shiff. Ms Deena Shiff resigned from the Board, and therefore the Committee, on 31 January 2023.

The Audit and Risk Committee have reviewed the Consolidated Entity's risk management profile during the year to satisfy themselves that it continues to be sound and that the Consolidated Entity is operating with due regard to the risk appetite set by the Board. The Chief Financial Officer prepares a risk profile for regular review by the Committee and the Board of Directors.

Nominations and Remuneration Committee

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

Non-audit services

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

DIRECTORS’ REPORT (continued)

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are contained in Note 10 to the financial statements.

Auditor’s independence declaration

The auditor’s independence declaration is included on page 46 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

Garry Hounsell
Director and Chair of the Board of Directors

Dated at Canberra this 30th day of March 2023

Deloitte Touche Tohmatsu
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477 Collins Street
Melbourne, VIC, 3000
Australia

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

30 March 2023

Dear Board Members

Auditor's Independence Declaration to Electro Optic Systems Holdings Limited

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

As lead audit partner for the audit of the financial report of Electro Optic Systems Holdings Limited for the year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060
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Independent Auditor's Report to the members of Electro Optic Systems Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Electro Optic Systems Holdings Limited (the "Company") and its subsidiaries (the "Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

- Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, that indicates a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Revenue recognition for significant contracts	
Electro Optic Systems Holdings Limited (EOSH) has four significant agreements with customers (key contracts) that account for approximately 66% of the consolidated total revenue. These key contracts are complex, span over several years and the accounting implications thereof are of significance to the performance of the consolidated entity. There are judgements associated with interpreting the revenue recognised for contracts entered into by the Consolidated Entity against the requirements of AASB 15 *Revenue from Contracts with Customers*. This results in a significant level of management judgement and estimation in relation to: • Interpreting and accounting for complex contractual terms, including multiple performance obligations, clauses with regards to cancellations, penalties for late delivery and warranties (amongst others); and • Accounting judgements and treatments in relation to the application of AASB 15 including the assessment of performance obligations, allocation of revenue, variable consideration and consideration of revenue recognition as being at a point in time or over time.	Our procedures included, but were not limited to: • Enquiring and performing a walkthrough of the process for recording revenue and assessing judgements applied to the key contracts to identify and test relevant controls; • Reviewing key contracts and assessing revenue recognition against the requirements of the relevant accounting standard; • Testing on a sample basis, revenue transactions recorded in relation to the key contracts and assessing whether these have been appropriately accounted for with regard to the accounting policy adopted, including agreeing these to underlying records, including shipment and milestone documentation; and • Assessing the application of any adjustments in relation to variable elements of revenue recognition, including the application of the late delivery clauses. We also assessed the adequacy of the disclosures in Notes 1(f) and 2(a) to the financial statements.
Recoverability of goodwill and intangible assets	
AASB 136 *Impairment of Assets* requires goodwill acquired in a business combination to be tested annually for impairment. The standard also applies to assessing impairment of intangible assets. The determination of the recoverable amount requires management judgement in determining and applying: • Cash flow projections; • Expected future growth in the product market; and • Discount rates.	Our procedures included, but were not limited to: • Enquiring and performing a walkthrough of the process to prepare management's cash flow forecasts to identify and test relevant controls; • Challenging management's assessment on the underlying inputs and assumptions applied when making key judgements and estimates; • Assessing the status of any new/ongoing/potential contracts based on discussions with management and external research (where available); • Performing an independent sensitivity analysis to determine whether reasonably foreseeable

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
	changes to the key inputs and assumptions would trigger impairment; • Engaging our internal valuation specialists to assist in the evaluation of management's assumptions applied in their assessment in calculating the recoverable amount of the identified CGUs, including future cash flows, growth rates, discount rates and terminal value calculations; and • Comparing the recoverable amount of the CGUs to the carrying value to determine whether an impairment is required. We also assessed the adequacy of the disclosures in Notes 13 and 14 to the financial statements.
Contract asset recoverability	
As a result of the timing of revenue recognition for a contract with a customer in a foreign jurisdiction, EOSH have recognised a contract asset of $150,525,000 (refer Note 1(y)(c)) in the statement of financial position. The contract asset represents amounts reflected in revenue on a milestone basis but not billed to the customer. AASB 9 *Financial Instruments* requires that contract assets are subject to an assessment in relation to the expected credit loss (ECL). Impairment is required to be recognised where an ECL exists. The determination of the ECL requires management judgement in considering management's ability to realise the contract asset.	Our procedures included, but were not limited to: • Enquiring and performing a walkthrough of the process to assess the recoverability of the contract asset to identify and test relevant controls; • Obtaining and assessing management's assessment of the factors impacting the ECL in relation to the contract asset and any required ECL charges; • Recalculating contract asset recorded by management; and • Enquiring, obtaining and evaluating documentation in relation to the performance against the contract including any variations of the contract. We also assessed the adequacy of the disclosures in Note 1(y)(c) and 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 Corporate Directory, Review of Operations, Directors' Report and ASX Additional Information which we obtained prior to the date of this auditor's report, and also includes information which will be included in the Consolidated Entity's 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 and will not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 31-44 of the Directors' Report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Electro Optic Systems Holdings Limited, for the year ended 31 December 2022, 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

Chris Biermann
Partner
Chartered Accountants
Canberra, 30 March 2023

DIRECTORS' DECLARATION

The Directors declare that:

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

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

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* applies, as detailed in Note 31 to the financial statements will, as a consolidated entity, be able to meet any liabilities to which they are, or may become, subject because of the Deed of Cross Guarantee.

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

On behalf of the Directors

Garry Hounsell
Director and Chair of the Board of Directors

Dated at Canberra this 30th day of March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	31 December 2022 $ '000	31 December 2021 $ '000
Continuing Operations			
Revenue	2(a)	137,912	212,331
Other income	2(b)	1,860	975
Foreign exchange gain	2(c)	12,666	9,797
Raw materials and consumables used		(87,455)	(117,202)
Changes in inventory work in progress and finished goods		(3,942)	5,663
Employee benefits expense	2(c)	(63,005)	(59,092)
Occupancy costs		(1,891)	(1,708)
Administration expenses		(23,262)	(15,795)
Other expenses		(3,142)	(2,343)
Finance cost	2(c)	(14,252)	(6,601)
Depreciation of property, plant and equipment	2(c)	(4,324)	(3,892)
Depreciation of right of use assets	2(c)	(5,138)	(4,562)
Amortisation of intangible assets	2(c)	(1,597)	(1,597)
Impairment of assets	14	(7,315)	-
(Loss)/Profit before tax from Continuing Operations		**(62,885)**	**15,974**
Income tax benefit/(expense)	4	9,278	(9,231)
(Loss)/Profit for the year from Continuing Operations		**(53,607)**	**6,743**
Discontinued Operations			
(Loss) after tax for the year from Discontinued Operations	5	(61,954)	(20,586)
(Loss) for the year		**(115,561)**	**(13,843)**
Attributable to:			
Owners of the Company	27	(114,540)	(13,006)
Non-controlling interests		(1,021)	(837)
		(115,561)	**(13,843)**
Other comprehensive income			
Items that may be reclassified in future to profit or loss			
Exchange differences on translation of foreign operations		2,100	1,344
Total comprehensive (Loss) for the year		**(113,461)**	**(12,499)**
Attributable to:			
Owners of the Company		(112,440)	(11,662)
Non-controlling interests		(1,021)	(837)
		(113,461)	**(12,499)**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Earnings (Loss)/Profit per share	Note	31 December 2022 Cents per share	31 December 2021 Cents per share
Basic			
From Continuing Operations	3	(35.8 cents)	5.4 cents
From Discontinued Operations	3	(42.2 cents)	(14.8 cents)
Total		**(78.0 cents)**	**(9.4 cents)**
Diluted			
From Continuing Operations	3	(35.8 cents)	5.4 cents
From Discontinued Operations	3	(42.2 cents)	(14.8 cents)
Total		**(78.0 cents)**	**(9.4 cents)**

Notes to the financial statements are included on pages 58 to 134.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	31 December 2022 $ '000	31 December 2021 $ '000
CURRENT ASSETS			
Cash and cash equivalents	28	21,681	59,261
Trade and other receivables	6	7,419	23,533
Tax receivable		12,245	196
Contract asset	7	127,899	106,844
Inventories	8	74,841	74,579
Prepayments	9	17,591	20,399
TOTAL CURRENT ASSETS		**261,676**	**284,812**
NON-CURRENT ASSETS			
Contract asset	7	36,520	21,453
Deferred tax asset	4	3,326	4,506
Security deposits	37	35,588	28,141
Loan to associate	11	-	2,513
Right of use assets	12	18,252	28,601
Goodwill	13	12,373	14,878
Intangible assets	15	12,446	17,109
Property, plant and equipment	16	37,217	56,078
TOTAL NON-CURRENT ASSETS		**155,722**	**173,279**
TOTAL ASSETS		**417,398**	**458,091**
CURRENT LIABILITIES			
Trade and other payables	17	43,179	35,371
Contract liabilities	18	22,168	7,666
Secured borrowings	19	21,391	34,448
Unsecured borrowings	19	1,904	-
Lease liabilities	20	3,939	5,160
Provisions	21	12,212	14,178
TOTAL CURRENT LIABILITIES		**104,793**	**96,823**
NON-CURRENT LIABILITIES			
Secured Borrowings	19	49,443	-
Lease liabilities	20	20,507	24,864
Provisions	21	9,563	7,249
TOTAL NON-CURRENT LIABILITIES		**79,513**	**32,113**
TOTAL LIABILITIES		**184,306**	**128,936**
NET ASSETS		**233,092**	**329,155**
EQUITY			
Issued capital	23	432,248	413,728
Reserves	26	12,545	11,567
Accumulated losses	27	(208,499)	(93,959)
Equity attributable to owners of the Company		236,294	331,336
Non-controlling interests		(3,202)	(2,181)
TOTAL EQUITY		**233,092**	**329,155**

Notes to the financial statements are included on pages 58 to 134.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

2022	Accumulated losses $'000	Issued capital $'000	Foreign currency translation reserve (FCTR) $'000	Employee equity settled benefits reserve $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total Equity $'000
Balance at 1 January 2022	**(93,959)**	**413,728**	**(1,823)**	**13,390**	**331,336**	**(2,181)**	**329,155**
Loss for the year before reclassification from FCTR	(110,365)	-	-	-	(110,365)	(1,021)	(111,386)
Reclassification of FCTR Loss on disposal of foreign operations	(4,175)	-	4,175	-	-	-	-
(Loss)/Profit for the year	**(114,540)**	-	4,175	-	(110,365)	(1,021)	(111,386)
Exchange differences arising on translation of foreign operations	-	-	(2,075)	-	(2,075)	-	(2,075)
Total comprehensive (loss)/profit for the year	**(114,540)**	**-**	**2,100**	**-**	**(112,440)**	**(1,021)**	**(113,461)**
Issue of 12,500,000 equity shares at $1.20 per share on 4 July 2022 (Net of issuance cost of $583,000)	-	14,417	-	-	14,417	-	14,417
Issue of 168,737 equity shares at $1.20 per share on 27 July 2022 under the share purchase plan	-	203	-	-	203	-	203
Issue of 7,653,040 equity shares at $0.5096 per share on 13 Oct 2022 under financing arrangements	-	3,900	-	-	3,900	-	3,900
Recognition of share-based payments expense (reversal)	-	-	-	(1,122)	(1,122)	-	(1,122)
Balance at 31 December 2022	**(208,499)**	**432,248**	**277**	**12,268**	**236,294**	**(3,202)**	**233,092**
2021							
Balance at 1 January 2021	(80,953)	413,479	(3,167)	11,580	340,939	(1,344)	339,595
Loss for the year	(13,006)	-	-	-	(13,006)	(837)	(13,843)
Exchange differences arising on translation of foreign operations	-	-	1,344	-	1,344	-	1,344
Total comprehensive profit for the year	**(13,006)**	**-**	**1,344**	**-**	**(11,662)**	**(837)**	**(12,499)**
Repayment of loans in respect of Loan Funded Share Plan 83,125 shares at $2.99 per share	-	249	-	-	249	-	249
Recognition of share-based payments expense	-	-	-	1,810	1,810	-	1,810
Balance at 31 December 2021	**(93,959)**	**413,728**	**(1,823)**	**13,390**	**331,336**	**(2,181)**	**329,155**

Notes to the financial statements are included on pages 58 to 134

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	31 December 2022 $ '000	31 December 2021 $ '000
Cash flows from operating activities			
Receipts from customers		145,889	233,934
Payments to suppliers and employees		(188,637)	(225,251)
Income tax paid		(1,014)	(2,627)
Interest and bill discounts received		230	30
Interest and other costs of finance paid		(8,040)	(5,865)
Net cash inflows from operating activities	**28(b)**	**(51,572)**	**221**
Cash flows from investing activities			
Payment for property, plant and equipment		(19,253)	(29,007)
Security deposit for performance bond		(11,212)	(8,701)
Repayment of loan by associated entity		2,576	-
Payment to acquire a business		(421)	-
Net cash (outflows) from investing activities		**(28,310)**	**(37,708)**
Cash flows from financing activities			
Proceeds from issue of new shares		14,620	-
Repayment of loans in respect of loan funded share plan shares		-	249
Repayment of lease liabilities		(5,045)	(3,852)
Proceeds from borrowings		75,687	35,000
Repayment of borrowings		(35,807)	-
Transaction costs related to borrowings		(4,104)	(812)
Net cash inflows from financing activities		**45,351**	**30,585**
Net (decrease) in cash and cash equivalents		**(34,531)**	**(6,902)**
Cash and cash equivalents at the beginning of the financial year		59,261	65,933
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(3,049)	230
Cash and cash equivalents at the end of the financial year	**28(a)**	**21,681**	**59,261**

Notes to the financial statements are included on pages 58 to 134.

1. Summary of accounting policies

a. Statement of compliance

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

The financial statements were authorised for issue by the Directors on 30th March 2023.

b. Basis of preparation

The financial report has been prepared on the basis of historical cost unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated. The functional currency of the Consolidated Entity is Australian dollars. Certain comparative amounts have been restated to apply with the method of computation in the current year.

The Company is a company of the kind referred to in A*SIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

c. Going concern

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

The Consolidated Entity incurred a Loss Before Tax from Continuing Operations of $62,885,000 (December 2021: Profit before tax of $15,974,000).

In addition, the Consolidated Entity had a net cash outflow from operating activities of $51,572,000 (December 2021: net cash inflow received of $221,000) and a net decrease in cash and cash equivalents held of $37,580,000 (December 2021: net decrease of $6,672,000).

During the second half of the year the Company took steps to:
- reduce the ongoing level of cash outflows in relation to SpaceLink;
- reduce the operating cost base by reducing headcount; and
- focus on improving the core business, including cash collections from customers.

On 6 September and 12 October 2022, the Company entered into binding agreements with a new financier for new borrowing facilities. These facilities are detailed in Note 19 Borrowings. As at the date of this report, the facilities were fully drawn.

Under the borrowing facilities, repayment of the expected balances (including capitalised fees and interest) are required as follows:
- $26.9m on 6 September 2023
- $20.5m on 11 April 2024
- $52.1m on 11 October 2025

1. Summary of accounting policies (continued)

c. Going concern (continued)

Under these new borrowing arrangements, the Company is required to comply with certain Borrowing Covenants. If the covenants are not complied with then the lender (and the other funding provider), together "the lenders" have the right to seek immediate repayment of outstanding amounts. As part of the covenant requirements, the Company was obliged to provide the lenders in January 2023 with Cash Flow Forecasts for the six months to 31 July 2023. The Company complied with this obligation. Covenant compliance is measured each month against these forecasts, using a rolling three-month period. In the event of a breach of a covenant, the Company has a limited period in which to take action to resolve the breach and/or negotiate with lenders. If the breach is not resolved, the lender can unilaterally amend the Borrowing Agreement and demand immediate repayment of outstanding amounts.

The Company complied with lending covenants at 31st January 2023 and 28th February 2023. During March 2023, due to timing delays the Company expected that cash receipts for the rolling three-month period ended 31st March 2023 would be lower than required under the Borrowing Covenant. As a result, the Company submitted a revised Cash Flow Forecast to the lenders in March 2023 and the lenders agreed to accept the revised Cash Flow Forecast. Based on this, the Company does not expect to breach the covenants at 31 March 2023.

Compliance with the Borrowing Covenant will continue to be measured each month during 2023. An updated Cash Flow Forecast is required to be provided to lenders by 31 July 2023 for the period to 31 December 2023.

The Consolidated Entity has prepared a Cash flow Forecast that supports the ability of the Consolidated Entity to continue as a going concern. The underlying assumptions of the forecast include acknowledgement of the intrinsic operational risks of the business, the existing cash position of the Consolidated Entity, the need to convert the Contract Asset into cash, the ongoing loan repayment requirements and the need to obtain further funding if required. Subsequent to 31 December 2022, an amount of $45.1m has been received in respect of the contract asset.

Based upon the information available at the date of this report, including current estimates of contract wins and cash inflows, the Company forecasts it will generate sufficient net cash flows to fund required borrowing repayments of $47.4m in September 2023 and April 2024. In the event that forecast contract wins and forecast cash inflows do not occur, the Company will seek to secure a covenant waiver, and/or secure a rollover/refinancing of the borrowings, and/or an equity injection to ensure the repayment obligations are met.

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:

- The receipt of significant cash collections from customers as a result of:
    a) The continued realisation of the Contract Asset, particularly including significant forecast cash receipts in April, May and June 2023;
    b) Key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- The continued adherence to borrowing covenants by the Consolidated Entity, which is dependent on significant forecast cash receipts in April, May and June 2023, and the forbearance of lenders regarding future covenant breaches should any arise,
- The continued ability of the Consolidated Entity to deliver contracts on time, to the required specifications and within budgeted costs,
- The continued support of the lenders in accepting Cash flow Forecasts in July 2023, as required under the Borrowing Agreements,
- To the extent required to meet the repayment obligations under borrowing arrangements (Note 19), the successful completion of further debt or equity raisings,
- The continued forbearance of certain creditors in respect of amounts which are beyond normal payment terms, and
- Conversion of key opportunities within the Defence and Space sector pipelines.

c. Going concern (continued)

The Directors note that whilst the Consolidated Entity has been successful in securing debt finance and raising capital in the past, there is no assurance that it will be successful in any potential future recapitalisation and/or refinancing of the Consolidated Entity should this be required.

If the Consolidated Entity is unable to achieve successful outcomes in relation to the above matters (in particular, the ability to convert the Contract Asset into cash, the ability to secure the continued support of the financiers to the Consolidated Entity, and the ability to secure debt finance or raise capital should that be required), then material uncertainty exists that may cast significant doubt as to the ability of the Consolidated Entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

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

d. Impact of COVID-19 and related supply chain challenges

During the period since the outbreak of the COVID-19 pandemic, the Consolidated Entity has been affected in multiple ways. This includes increasing supply chain costs, product delivery delays, delays in contract negotiations and execution, reduced access to customers and reduced production.

The normalisation of global supply chains has taken longer to occur than previously expected and supply chain challenges continue in many markets, impacting the timing of EOS Revenue recognition. Whilst in some areas supply chain challenges have started to show signs of easing, in other areas the impact of previous challenges continues to be felt, and new challenges have emerged.

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, the review of the expected credit losses on receivables and the collectability of contract assets, as well as the impairment assessment on goodwill and intangibles.

For EOS' largest customer contract, in the Middle East, timing delays arose during the year. These were mainly due to supply chain issues impacting both the customer and EOS. This means that some revenue that was previously expected to be recognised during 2022 has been delayed until later periods.

The Directors have reviewed the collectability of the total Contract Asset as at 31 December 2022 of $164,419,000, including both current and non-current amounts. 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.

Estimates and outcomes that have been applied in the measurement of the Consolidated Entity's Contract Asset may change in the future and any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both that period and future periods.

1. Summary of accounting policies (continued)

e. Adoption of new and revised Standards

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

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year summarised below. 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
• AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current, and • AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023	31 December 2023
• 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	31 December 2023
• 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	31 December 2023
• 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information	1 January 2023	31 December 2023
• 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2023	31 December 2023
• 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards	1 January 2023	31 December 2023
• 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments	1 January 2023	31 December 2023
• AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,	1 January 2025	31 December 2025
• AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128,	1 January 2025	31 December 2025
• AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections, and	1 January 2025	31 December 2025
• AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2025	31 December 2025

These are not expected to have a material impact on the Consolidated Entity's accounting policies or any of the amounts recognised in the financial statements.

1. Summary of accounting policies (continued)

f. Revenue recognition

The Consolidated Entity recognises revenue from the following major sources:

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

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

Transaction price

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

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

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

Timing of revenue recognition

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

Revenue recognition over time

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

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

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

Revenue recognition at a point time

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

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

Interest revenue is recognised using the effective interest rate method.

1. Summary of accounting policies (continued)

g. Discontinued Operations

A disposal Group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or it is classified as held for sale and:

a. represents a separate major line of business or geographical area of operations,
b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
c. is a subsidiary acquired exclusively with a view to resale.

Discontinued Operations are excluded from the results of Continuing Operations and are presented as a single amount as profit or loss after tax from Discontinued Operations in the statement of profit or loss.

Additional disclosures are provided in Note 5. All other notes to the financial statements include amounts for Continuing Operations, unless indicated otherwise.

h. Financial instruments

Financial assets

Classification

The Consolidated Entity classifies its financial assets in the following measurement categories:

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

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

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

Measurement

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

Debt instruments

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

1. Summary of accounting policies (continued)

Impairment

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

Financial Liabilities

Interest bearing liabilities

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

Trade and other payables

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

i. 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 equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

j. Employee benefits

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

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

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

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

k. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rates of exchange at the reporting date. Exchange differences arising on settlement or translation of monetary items are recognised in Statement of Profit and Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are recorded using the exchange rates at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

1. Summary of accounting policies (continued)

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in Other Comprehensive Income or Statement of Profit and Loss are also recognised in Other Comprehensive Income or Statement of Profit and Loss, respectively).

Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations (having non-AUD functional currency) are translated to Australian dollars at the exchange rate prevailing on the balance sheet date, income and expenses items are translated at the average rate of exchange for the respective months. Exchange differences arising on such translation are recognised as currency translation reserve under equity. Exchange differences arising from the translation of a foreign operation previously recognised in currency translation reserve in equity are not reclassified from equity to the consolidated profit or loss until the disposal of the operation.

l. Goods and services tax

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

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

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

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

m. Government grants

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

Government grants that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Consolidated Entity with no future related costs, are recognised as income in the period in which the grants becomes receivable.

n. 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.

1. Summary of accounting policies (continued)

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Other than goodwill, where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

o. Income tax

Current tax

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

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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

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

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

1. Summary of accounting policies (continued)

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 bargain purchase gain.

Tax consolidation

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

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

There are formal tax funding and tax sharing arrangements between the companies comprising the Australian tax-Consolidated Entity as at 31 December 2022.

p. Intangible assets

Research and development costs

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

Intangible assets acquired in a business combination

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

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

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

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

1. Summary of accounting policies (continued)

q. Inventories

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

r. Leased assets

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

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

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

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

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

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

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

s. Basis of consolidation

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

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

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

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

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

1. Summary of accounting policies (continued)

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

t. Property, plant and equipment

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

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

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

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

u. 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.

1. Summary of accounting policies (continued)

Warranties

Provisions for warranty costs are recognised as agreed in individual sales contracts, at the Directors best estimate of the expenditure required to settle the Consolidated Entity's liability. Sales-related warranties cannot be purchased separately, and they serve as an assurance that the products sold comply with agreed-upon specifications.

Contract losses

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

Make good provisions and decommissioning costs

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

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.

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

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.

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

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

1. Summary of accounting policies (continued)

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

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

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

x. Goodwill

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

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

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 circumstances, the results of which form the basis of making these judgements. Actual results may differ from these estimates.

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

Key judgement and sources of estimation uncertainty

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

1. Summary of accounting policies (continued)

y. Critical accounting judgements (continued)

a. Recoverability of goodwill and Impairment of assets

The Directors made a critical judgement in relation to the recoverable amount of goodwill in Note 13 and the allocation of goodwill to the three CGUs.

EOS assesses each CGU and individual asset level, where possible, at period end, to determine whether there are any indications of impairment or reversal of impairment. Where an indicator of impairment or reversal exists, a formal estimate of the recoverable amount is made. Goodwill and indefinite life intangible assets are assessed at least on an annual basis.

Recoverable amount is the higher of the fair value less cost of disposal and value in use calculated in accordance with our accounting policy. These assessments require the use of estimates and assumptions such as our pipeline of sales opportunities, discount rates applied to estimated free cash flows, and long-term growth rates applied in estimating the future value of our CGUs.

Impairment of Discontinued Operations

As reported in its 30 June 2022 half year report, as the result of a significant deterioration in the risk appetite in debt and equity markets, and delays in obtaining funding required for SpaceLink, the Consolidated Entity reviewed its plans in relation to SpaceLink.

Also during the half year ended 30 June 2022, management identified impairment indicators relating to individual assets of SpaceLink, and an impairment expense of $47,181,000 was recognised at that time in the Statement of Profit or Loss and Other Comprehensive Income.

On 15 November 2022, EOS assigned SpaceLink to an assignee under an ABC process in the United States, and accordingly the activities relating to SpaceLink have now been classified as a discontinued operation. More information is included in Note 5.

Impairment of Continuing Operations

For the CGU impairment assessment, management performed an assessment of the recoverable amount of its Defence CGU as at 30 June 2022. This assessment resulted in impairments in relation to all of the goodwill allocated to the Defence CGU of $2,505,000 and an impairment in relation to a Defence CGU property right of use asset of $1,284,000. These were reported in the 30 June 2022 half year report.

In addition, in relation to a property right of use asset at the Canberra Head Office, an impairment expense of $3,526,000 was recognised during the year ended 31 December 2022.

As part of the preparation of its 31 December 2022 Annual Report, management noted that the carrying amount of the Consolidated Entity's net assets continued to be more than its market capitalisation as at 31 December 2022, and that performance for the year continued to be below budget. These are specific indicators of impairment under AASB 136 Impairment of Assets. As a result, management performed an assessment of the recoverable amount of each of its three CGUs, Defence, EM Solutions (EMS) and Space as at 31 December 2022. No further impairments, or reversals of impairments, were recognised as a result of the Consolidated Entity's 31 December 2022 assessment.

Consequently, the Loss After Tax for the year from Continuing Operations included a total impairment expense of $7,315,000. See note 2(c) and 14 below for detailed information.

1. Summary of accounting policies (continued)

y. Critical accounting judgements (continued)

b. Capitalisation and recoverable amount of capital work in progress

A critical judgement exists in the decision to capitalise work in progress (see Note 16). The Consolidated Entity capitalises work in progress when the Directors believe that the expenditure in question creates or enhances an asset from which future economic benefits will flow, and that the Consolidated Entity controls the asset. The capital works in progress asset balance at 31 December 2022 was $21,906,000. The asset is driven by capital works undertaken by Defence Systems and Space Systems.

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

During the year, as the result of a significant deterioration in the risk appetite in debt and equity markets, including from parties with whom the Consolidated Entity was previously in advanced stages of negotiation, and consequential delays in obtaining required funding for SpaceLink, the Consolidated Entity carried out a review of its plans in relation to SpaceLink and the recoverable amount of assets of SpaceLink. This review led to the impairment of carrying amounts of capital work in progress of $31,931,000 (Refer note 14 for further details).

The Company also continued to invest through Eos Defence Systems Australia (EOSDS) in the ongoing engineering development of counter drone defence, predominantly in the areas of directed energy (DE) and counter uninhabited aerial strike (CUAS) technologies. The Directors have assessed the recoverable amount of the EOSDS capital works in progress asset on 31 December 2022 and concluded that no impairments should be recognised. This judgement is based on the engagements completed during the year and feedback received from industry partners and potential customers.

Actual results may differ from this estimate. Estimates and outcomes that have been applied in the measurement of the Consolidated Entity's Contract Asset may change in the future. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

c. Contract asset

A critical judgement exists in relation to the recoverability of the contract assets described in Note 7. Of the total contract assets of $164,419,000, an amount of $150,525,000 relates to a contract with a customer in a foreign jurisdiction. As outlined in Note 1(d), as a result of COVID-19 and related supply chain challenges, the Company has experienced delays in relation to this contract. These delays have resulted in delays in the conversion of the Contract Asset into cash and judgement and estimation uncertainty in relation to recoverability. The Directors have reviewed the collectability of the total Contract Asset as at 31 December 2022 of $164,419,000, including both current and non-current amounts. 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.

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

1. Summary of accounting policies (continued)

y. Critical accounting judgements (continued)

d. Judgements in determining revenue recognised in the period

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

In 2021, the Directors made a critical judgement in relation to the Revenue recognised under a major production contract with a foreign customer. Under the contract, late deliveries against the contracted schedule may result in the application of late delivery penalties. Given the delays and other impacts experienced from the COVID-19 pandemic there was a possibility that late delivery penalties could possibly be applied and so the Consolidated Entity had therefore constrained revenue recognised under the contract before and during the 2021 year, some of which were applied and recognised in the first half of 2021. In September 2021 the client formally confirmed that any remaining penalties that may otherwise have accrued against deliveries through to 31 December 2021 would be waived. Given the Company's positive operating performance under the contract, good relationships with the client, and track record of payments received during 2021, the Directors determined that all variable consideration withheld against this contract should be released in the year ended 31 December 2021, resulting in a cumulative catch-up of the previously withheld variable consideration (see Note 7).

e. *Consolidation of EOS Defence Systems USA*

Effective from 17 October 2022, EOS Defence Systems USA (EOSDS USA), a United States based subsidiary, is managed through a Special Security Agreement (SSA) as required by the US National Industrial Security Program ("NISPOM"). The SSA enables EOSDS USA to enter into contracts with the US Department of Defence that contain certain classified information.

The SSA is an instrument designed to mitigate the risk of foreign ownership, control or influence over a US entity that has security clearance under the NISPOM. The SSA denies the foreign owner unauthorized access to classified and export-controlled information while preserving the foreign owner's voice in the business management of the company. Under the SSA, EOS has the right to appoint a representative (Inside Director) along with three Outside Directors. The Outside Directors must be US citizens approved by the US Defense Counterintelligence and Security Agency (DCSA).

The Group maintains its involvement with EOSDS USA's activities through normal business activity and liaison with the Chair of the SSA and through the Inside Director(s). The operational and governance activities and results are reviewed by EOS management. These activities are all performed within the confines of the SSA such that EOSDS USA operates its business within the requirements necessary to protect the US national security interest.

An assessment has been performed in accordance with AASB 10 Consolidated Financial Statements of whether, for accounting purposes, the Consolidated Entity controls EOSDS USA. The Consolidated Entity is exposed to variable returns from its investment in EOSDS USA and there is deemed to be sufficient power within the confines of the Proxy agreement for the Group to use its influence to affect those returns. As such, under AASB 10, it is deemed that the Consolidated Entity controls EOSDS USA and therefore the results of EOSDS USA are consolidated into the Consolidated Entity's consolidated accounts.

1. Summary of accounting policies (continued)

y. Critical accounting judgements (continued)

i. Deferred tax

The Directors made a critical judgement in relation to recognising some of the deferred tax balances described in Note 4(b). The Directors currently consider it probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised in the Australian tax Consolidated Entity. The Directors also made a critical judgement in relation to not recognising deferred tax balances on tax losses. No deferred tax assets have been recognised in the foreign subsidiaries. The Directors also made judgements in estimating the tax loss carry back amount of $11,200,000 recognised as a receivable.

ii. Warranty provision

The Directors made a critical judgement in relation to the valuation of the provision for warranty costs described in Note 22. The valuation is determined based on the Directors' best estimate of the expenditure required to settle the Consolidated Entity's liability under its warranty obligations.

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

z. Derivative liabilities

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

aa. Investments in associates

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

The Consolidated Entity measures the loan to an associate at fair value through profit and loss from the date which significant influence is obtained.

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

2. (Loss)/profit before tax-Continuing Operations

(a) Revenue

Revenue from operations	2022 $ '000	2021 $ '000
Revenue from operations consisted of the following items:		
Revenue from the sale of goods	111,292	162,186
Revenue from the rendering of services	26,620	50,145
Total revenue	**137,912**	**212,331**

Disaggregation of revenue

The Consolidated Entity derives its Revenue from the transfer of goods and services both (i) Over Time and (ii) at a Point in Time, as shown below.

Revenue Recognition Over Time	2022 $ '000	2021 $ '000
Defence Segment		
Sale of goods	83,512	103,059
Providing of services	8,887	38,682
Space Segment		
Sale of goods	22,132	15,053
Providing of services	3,301	3,627
Total Revenue Recognised Over Time	**117,832**	**160,421**

All other revenue is recognised at a point in time:

Revenue Recognition at a Point in Time	2022 $ '000	2021 $ '000
Defence Segment		
Sale of goods	2,100	36,941
Providing of services	11,452	5,834
Space Segment		
Sale of goods	3,548	7,132
Providing of services	2,980	2,003
Total revenue recognised at a Point in Time	**20,080**	**51,910**
Total revenue recognised	**137,912**	**212,331**

2. Loss from ordinary activities

(b) Other income

	2022 $ '000	2021 $ '000
Interest:		
Bank deposits	41	30
Other	189	426
Grant income	480	133
Bargain purchase (Note 30)	870	-
Other	280	386
Total other income	**1,860**	**975**

(c) Expenses

The Loss/(Profit) for the year from Continuing Operations includes the following expenses:

	2022 $ '000	2021 $ '000
Employee benefits expense:		
Share based payments (equity settled) (reversal)/expense	(1,122)	1,810
Contributions to defined contribution superannuation plans	5,200	4,750
Other employee benefits	58,927	52,532
Total employee benefits expense	**63,005**	**59,092**
Interest expense		
Interest expense on lease liabilities	1,317	1,174
Interest on secured borrowings	5,905	975
Other finance costs	7,030	4,452
Finance Cost	**14,252**	**6,601**
Amortisation of intangibles	1,597	1,597
Depreciation of property, plant and equipment	4,324	3,892
Depreciation on right of use assets	5,138	4,562
Impairment loss	7,315	-
Foreign exchange (gain)	(12,666)	(9,797)

3. Earnings per Share

	2022 cents per share	2021 cents per share
Basic		
Continuing Operations	(35.8 cents)	5.4 cents
Discontinued Operations	(42.2 cents)	(14.8 cents)
Total	**(78.0 cents)**	**(9.4 cents)**
Diluted		
Continuing Operations	(35.8 cents)	5.4 cents
Discontinued Operations	(42.2 cents)	(14.8 cents)
Total	**(78.0 cents)**	**(9.4 cents)**

Calculation of Basic and Diluted Total Earnings per Share

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

Earnings	**Note**	**2022 $'000**	**2021 $'000**
Earnings – net loss attributable to equity holders of parent	(a)	(114,540)	(13,006)
Adjustments to exclude loss for the year from Discontinued Operations	5	61,954	20,586
Earnings from Continuing Operations for the purpose of basic and diluted earnings per share excluding Discontinued Operations		(52,586)	7,580

Number of shares	**Note**	**2022 No. of shares**	**2021 No. of shares**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	(b), (c)	146,853,905	138,876,922

(a) (Loss)/ Profit attributable to the owners of the parent entity used in the calculation of basic earnings per share is the same as net profit in the statement of profit or loss and other comprehensive income.

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

(c) Shares issued under the LFSP 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 period. These include 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.

4. Income Tax

Corporation income tax	2022 $ '000	2021 $ '000
Current year expense/(benefit)	(9,278)	9,231

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

	2022 $ '000	2021 $ '000
Profit/(Loss) before income tax from Continuing Operations	(62,885)	15,974
Profit/(Loss) before income tax from Discontinued Operations	(61,954)	(20,586)
Profit/(Loss) before income tax	**(124,839)**	**(4,612)**
Income tax (benefit) calculated at 30%	(37,452)	(1,383)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,070)	2,066
Non-deductible capital expenditure	254	-
Bargain purchase on acquisition	(261)	-
Impairment of goodwill	751	-
Impact of discontinued operations	9,239	-
Share based payments	(336)	543
Amortisation of intangible assets in other jurisdictions	120	368
Other non-deductible/non-assessable items	1,698	(2,065)
	(28,057)	(471)
Recognition of tax losses carry back receivable	(11,200)	-
Temporary differences not recognised	(155)	-
Adjustment in respect of prior years	(49)	238
Unused Australian tax losses and tax offsets now brought to account	-	(99)
Unused tax losses and tax offsets not recognised as deferred tax assets	30,183	9,563
Income tax expense/(benefit) attributable to Operating Profit/(Loss)	**(9,278)**	**9,231**
Income tax attributable to a discontinued operation	**-**	**-**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law, 25% in Germany, 17% in Singapore, 0% in United Arab Emirates and 28% in New Zealand. Tax rates in the USA apply at a Federal, State and local level and can vary depending upon location. The tax rates applicable to the Consolidated Entity's USA operations haves been assumed to approximate a combined rate of 40%. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Deferred tax balances

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

4. Income Tax (continued)

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

	2021 $ '000	Charge/ (credit) to profit and loss $ '000	Recognised in other comprehensive income $ '000	2022 $ '000
Deferred tax assets				
Accruals	243	(68)	-	175
Business capital expenditure deductible over five years	1,703	(748)	-	955
Provision for annual leave	2,374	(228)	-	2,146
Provision for long service leave	1,446	(152)	-	1,294
Provision for estimated credit losses	-	(40)	-	(40)
Provision for decommissioning costs	75	-	-	75
Provision for obsolete stock	162	(24)	-	138
Provision for make good costs	331	80	-	411
Provision for warranty	1,927	277	-	2,204
Contract asset	366	459	-	825
Income tax losses	-	-	-	-
Foreign exchange gain arising from tax fair value adjustment	355	(3,115)	-	(2,760)
	8,982	**(3,559)**	**-**	**5,423**
Deferred tax liabilities				
Prepaid insurance	(25)	63	-	38
Right of use assets	270	(1,228)	-	(958)
Property plant and equipment	(1,079)	2,974	-	1,895
Other	(183)	137	-	(46)
Acquired intangible assets	(3,459)	433	-	(3,026)
	(4,476)	**2,379**	**-**	**(2,097)**
Total	**4,506**	**(1,180)**	**-**	**3,326**

4. Income Tax (continued)

	2020 $ '000	Charge/ (credit) to profit and loss $ '000	Recognised in other comprehensive income $ '000	2021 $ '000
Deferred tax assets				
Accruals	441	(198)	-	243
Business capital expenditure deductible over five years	2,460	(757)	-	1,703
Provision for annual leave	1,868	506	-	2,374
Provision for long service leave	1,192	254	-	1,446
Provision for estimated credit losses	38	(38)	-	-
Provision for decommissioning costs	75	-	-	75
Provision for obsolete stock	29	133	-	162
Provision for make good costs	151	180	-	331
Provision for warranty	3,678	(1,751)	-	1,927
Contract asset	86	280	-	366
Income tax losses	44	(44)	-	-
Foreign exchange gain arising from tax fair value adjustment	6,083	(5,728)	-	355
	16,145	**(7,163)**	**-**	**8,982**
Deferred tax liabilities				
Prepaid insurance	(117)	92	-	(25)
Right of use assets	266	4	-	270
Property plant and equipment	(1,074)	(5)	-	(1,079)
Other	-	(183)	-	(183)
Acquired intangible assets	(3,877)	418	-	(3,459)
	(4,802)	**326**	**-**	**(4,476)**
Total	**11,343**	**(6,837)**	**-**	**4,506**

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

(c) Unrecognised deferred tax balances

	2022 $ '000	2021 $ '000
The following cumulative deferred tax assets have not been brought to account as assets		
Tax losses – revenue	37,889	40,315
Temporary differences	926	1,022
Total	**38,815**	**41,337**

(d) Franking account balance

	2022 $ '000	2021 $ '000
Adjusted franking account balance	17,443	18,055

4. Income Tax (continued)

Tax consolidation

Relevance of tax consolidation to the Consolidated Entity

The Company and some of its wholly-owned Australian resident taxable entities have formed a tax-consolidated Group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated Group is Electro Optic Systems Holdings Limited. The members of the tax-Consolidated Entity Group are identified in Note 31.

Nature of tax funding arrangements and tax sharing agreements

As at 31 December 2022, there were formal tax funding and tax sharing arrangements within the Australian tax-consolidated Group.

5. Discontinued Operations

On 15 November 2022, EOS assigned its US subsidiary SpaceLink Corporation (SpaceLink) to an assignee under an Assignment for the Benefit of Creditors (ABC) process in the United States. Under this process, the Assignee became responsible for the disposal of SpaceLink assets, the distribution of proceeds to the creditors, as well as the management of all of the winding up activities of the company. The Consolidated Entity therefore effectively lost control over SpaceLink as a result of this Assignment and there was an effective disposal.

The activities relating to SpaceLink have been classified as a discontinued operation. SpaceLink was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of profit and loss and other comprehensive income has been re-presented to show the discontinued operation separately from Continuing Operations.

A gain arose on the assignment and effective disposal of SpaceLink as the assignment process allowed the Group to dispose of net liabilities for nil proceeds and at no cost.

The intra-Group transactions between Discontinued Operations and Continuing Operations have been fully eliminated in the consolidated financial results.

In the analysis below, management has elected to attribute the elimination of transactions between Continuing and Discontinued Operations before the Assignment and effective disposal of SpaceLink.

In the results shown below, there were no material transactions with the Continuing Operations during the current year or the prior year.

5. Discontinued Operations (continued)

The results of SpaceLink Corporation are presented below:

	Notes	2022 $ '000	2021 $ '000
Other income		39	-
Raw materials and consumables used		-	(19)
Employee benefit expenses		(12,525)	(10,111)
Occupancy costs		(240)	(255)
Administration expenses		(17,068)	(6,453)
Other expenses		(568)	(232)
Amortisation of Intangible assets		(401)	(1,227)
Depreciation of property plant and equipment		(159)	(62)
Depreciation of right of use assets		(438)	(423)
Finance cost		(197)	(14)
Impairment loss	14	(47,181)	(1,790)
Onerous contract provision		(2,932)	-
Loss before tax from Discontinued Operations		**(81,670)**	**(20,586)**
Tax expense		-	-
Loss for the year from Discontinued Operations		**(81,670)**	**(20,586)**
Gain on assignment and effective disposal of SpaceLink		19,716	-
Tax expense on gain on assignment and effective disposal of SpaceLink		-	-
Gain after tax		19,716	-
Net Loss for the Year attributable to Discontinued Operations (attributable to owners of the Company)		**(61,954)**	**(20,586)**

The net cash flows incurred by SpaceLink were:

Cash flow – Discontinued Operations	2022 $ '000	2021 $ '000
Operating cash flows	(15,321)	(32,114)
Investing cash flows	(11,373)	(1,747)
	(26,694)	**(33,861)**
Financing cash flows (provided by the Continuing Operations)	26,478	34,254

6. Trade and other receivables

	2022 $ '000	2021 $ '000
Current		
Trade receivables	6,373	22,391
GST receivable	933	931
Employee receivables	113	181
Other debtors	-	30
	7,419	**23,533**

The average debtor days on sales of goods is 20 days. No interest is charged on outstanding late receivables.

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

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

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

7. Contract asset

	2022 $ '000	2021 $ '000
Unbilled revenue – current	127,899	106,844
Unbilled revenue - non-current	36,520	21,453
Total	**164,419**	**128,297**

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

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

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

The movement in the Contract Asset during the financial year is set out below.

7. Contract asset

	2022 $ '000	2021 $ '000
Opening balance	128,297	137,897
Invoicing during the financial year	(59,611)	(99,259)
Net revenue recognised during the year	88,816	63,359
Variable consideration previously constrained, now recognised	-	18,316
Impact of foreign exchange and other movements	6,917	8,308
Impact of discounting – net	-	(324)
Closing balance	**164,419**	**128,297**

8. Inventories

	2022 $ '000	2021 $ '000
Raw materials – at net realisable value and cost	26,420	30,100
Work in progress – at cost	48,421	44,479
Total	**74,841**	**74,579**

9. Prepayments and other assets

	2022 $ '000	2021 $ '000
Current Prepayments*	17,591	20,399

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

10. Remuneration of Auditors

	2022 $ '000	2021 $ '000
(a) Deloitte and related network firms*		
Audit or review of the financial reports:		
In relation to the current year	888	448
In relation to the 2021 audit paid in 2022	200	-
– Consolidated Entity	1,088	448
Other assurance services	218	-
Other services		
– Tax consulting services	71	58
	1,377	**506**
(b) Other Auditor and their related network firms		
Audit or review of the financial reports	17	15
Other services		
– Taxation services	9	4
	26	**19**

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

11. Loan to associate

	2022 $ '000	2021 $ '000
Unsecured convertible note to associate - AEI Air (Holdings) Limited	-	2,513

During the year ended 31 December 2022 Electric Optic Systems Pty Ltd and AEI Air (Holdings) Limited entered into a Settlement Deed in relation to a prior arrangement. As a result of that settlement deed, these arrangements have ended. Details are as follows:

On 23 April 2019 the Consolidated Entity entered into an Unsecured Convertible Note deed with a supplier, AEI Air (Holdings) Limited ("AEI"). See Note 34 for details of AEI.

The terms of the deed required AEI to issue to the Consolidated Entity up to five convertible notes, subject to certain conditions, of which $2,780,265 (£1,500,000) was paid, representing only four convertible notes. All five notes could be converted, in aggregate, into such number of shares which represents 51% of the issued share capital of AEI at the date of conversion. Following payment of the first note the Consolidated Entity appointed two out of five directors of AEI and had the right to appoint, remove or replace such number of directors which represented 50% of the Board of Directors (equivalent to 50% of directors' voting rights under the revised articles of association).

The meeting of certain conditions, including product specifications, would enable the Consolidated Entity to request the issuance of the remaining notes at their discretion, and convert these into equity. The convertible notes are redeemable upon an event of default or at the maturity date (being 36 months after the date of issue of the first note above – 23 April 2019), and on redemption AEI must repay the face value of the notes to the Consolidated Entity.

On 23 April 2019 the Consolidated Entity also entered into a Put and Call Option deed with the shareholders of AEI. This deed allowed the Consolidated Entity to call the remaining 49% of the shareholding in AEI at an aggregate exercise price based on an adjusted net profit after tax (NPAT) multiple. The shareholders also had a put option over the same interest. Further, under this agreement, should certain conditions be met, the shareholders are able to request the drawdown of loan advances to a maximum of $3,177,843 (£1,714,500), payable to the shareholders in four equal tranches. Had the loans been called, the agreement contains an offset clause under which the Consolidated Entity can offset against amounts payable should the put and call options be exercised. The put and call options could be exercised by the Consolidated Entity (or the shareholders) at any time up to and including 30 June 2022 but were conditional on the exercise of the Unsecured Convertible Notes as referred to above. The put and call option liability (in relation to the option) was carried at fair value through profit and loss.

The nature of the arrangement with AEI was as an associate, as the nature of the Consolidated Entity's interest was that of significant influence rather than accounting control.

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

On 13 July 2022 Electro Optic Systems Pty Ltd and AEI Air (Holdings) (AEI) Limited entered into a settlement deed and release agreement wherein it was agreed that AEI would compensate EOS an amount of $3,181,000 (£1,642,000) for:

- the principal amount of the convertible notes of $2,905,000 (£1,500,000) referred to in note 36(i),
- interest of $261,000 (£135,000), and
- payment for ammunition used by AEI to date of $15,000 (£7,000).

This effectively cancelled both the Unsecured Convertible Note Deed and the Put and Call Option Deed thereby terminating the relationship between the Consolidated Entity and AEI.

AEI therefore ceased being an associate of the Consolidated Entity on this date.

Between 29 July and 2 August 2022 EOS received an amount of $2,843,000 (£1,615,000) representing the full settlement amount above of $2,891,000 (£1,642,000) less withholding tax of $47,000 (£27,000) (20% of the interest amount). $2,576,000 was allocated to the loan to AEI whilst the rest ($267,000) was allocated to the 2% interest in AEI, interest, and ammunition.

12. Right of use assets

	2022 $ '000	2021 $ '000
(a) Office premises – at cost	29,117	37,151
Less accumulated depreciation and impairment	(11,414)	(9,384)
	17,703	**27,767**
(b) Office equipment – at cost	1,402	1,612
Less accumulated depreciation and impairment	(853)	(778)
	549	**834**
	18,252	**28,601**

Cost	**2022 $ '000**	**2021 $ '000**
Office premises		
Balance at the beginning of the year	37,151	24,353
Adjustment due to lease modification	1,931	32
Additions	1,658	13,251
Disposals	(185)	(835)
Impairments	(12,492)	-
Net foreign exchange differences	1,054	350
Balance at the end of the year	**29,117**	**37,151**
Office equipment		
Balance at the beginning of the year	1,612	1,658
Additions	-	64
Write-offs	(136)	(110)
Net foreign currency exchange differences	(74)	-
Balance at the end of the year	**1,402**	**1,612**

Accumulated Depreciation/Amortisation/ Impairment	**2022 $ '000**	**2021 $ '000**
Office premises		
Balance at the beginning of the year	9,384	5,378
Adjustment due to lease modification	(105)	4
Depreciation (continuing and discontinued operations)	5,291	4,636
Disposals	(185)	(835)
Impairments	(3,625)	-
Net foreign exchange differences	654	201
Balance at the end of the year	**11,414**	**9,384**
Office equipment		
Balance at the beginning of the year	777	490
Depreciation (continuing and discontinued operations)	285	348
Disposals	(136)	-
Net foreign exchange differences	(73)	(60)
Balance at the end of the year	**853**	**778**

13. Goodwill

	2022 $ '000	2021 $ '000
Opening balance	**14,878**	**14,878**
Less impairment	2,505	-
Closing balance	**12,373**	**14,878**

Management has identified the following as the Consolidated Entity's cash generating units ("CGUs"):

CGU	Operations
EM Solutions	EMS specialises in innovative optical, microwave and on-the-move radio and satellite products that help deliver high speed, resilient and assured telecommunications anywhere in the world.
Space Technologies	EOS's laser-based surveillance systems with space tracking capability; manufactures and sells telescopes and dome enclosures for space projects.
Defence Systems	Develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers

The carrying amount of goodwill has been allocated to CGUs as follows:

	2022 $ '000	2021 $ '000
Defence	-	2,505
Space	2,505	2,505
EM Solutions	9,868	9,868
	12,373	**14,878**

14. Impairment of assets

Impairment indicators and testing

At each period end, the Consolidated Entity assesses whether indicators of impairment or impairment reversal exist at an individual asset level, where possible, and a CGU level.

During the year ended 31 December 2022, management identified indicators of impairment in regard to certain individual assets within SpaceLink and a company-wide indicator of impairment in relation to the Consolidated Entity's market capitalisation and performance against budgets for the financial year.

Discontinued Operations – SpaceLink

During the year, as the result of a significant deterioration in the risk appetite in debt and equity markets, including from parties with whom the Consolidated Entity was previously in advanced stages of negotiation, and consequential delays in obtaining required funding for SpaceLink, the Consolidated Entity carried out a review of its plans in relation to SpaceLink and the recoverable amount of assets of SpaceLink

As reported in the 30 June 2022 half year report, this review led to the carrying amounts of several assets being impaired in full. These included capital work in progress ($31,931,000), intangible assets ($2,785,000), FCC security bond ($5,804,000), Right of Use assets ($4,057,000) and other assets ($2,604,000).

14. Impairment of assets (continued)

On 15 November 2022, SpaceLink was assigned to an Assignee. This resulted in a loss of control of SpaceLink, and it has been treated as a discontinued operation (see note 5 for further details). Accordingly, the amounts above have been recognised as part of the reported Loss After Tax for the Year from Discontinued Operations.

As a result, an impairment loss of $47,181,000 has been recognised in the Loss After Tax for the Year from Discontinued Operations.

Continuing Operations

Defence

As reported in the 30 June 2022 half year report, management performed an assessment of the recoverable amount of its Defence CGU as at 30 June 2022. This assessment resulted in impairment charges being recognised in relation to all of the goodwill allocated to the Defence CGU of $2,505,000 and in relation to a Defence property Right of Use asset of $1,284,000.

Corporate head office

During the year, as the result of a reduction in an overall headcount of the Company as part of its Strategic Review, the Company identified an impairment indicator in relation to its lease for its Canberra Head Office property. While the Company continues to assess options for the lease, it concluded that the carrying value of the Right of Use asset exceeded its recoverable amount. As a result, an impairment expense of $3,526,000 was recognised at 31 December 2022. The Corporate assets are allocated to the CGU's for CGU level impairment testing.

The total impairment expense recorded during the year for Continuing Operations was $7,315,000.

Market capitalisation deficiency and performance against budget

In addition to the indicators noted above, management noted that the carrying amount of the Consolidated Entity's net assets continues to be more than its market capitalisation as at 31 December 2022, and that financial performance for the current financial year was below budget. These are specific indicators of impairment under AASB 136 Impairment of Assets. As a result, management performed an assessment of the recoverable amount of each of its three CGUs, Defence, EM Solutions and Space as of 31 December 2022.

The 31 December 2022 assessment showed the recoverable amount for all CGUs being higher than their carrying values and as such the Consolidated Entity did not identify any further impairments as at 31 December 2022.

Key assumptions and sensitivities used for impairment assessment performed during the year ended 31 December 2022

The recoverable amount of the CGUs of the Consolidated Entity have been assessed by reference to the higher of value in use and fair value less cost of disposal arrived by discounting a cash flow forecast with the weighted average cost of capital of each CGU.

14. Impairment of assets (continued)

Assumption	Basis of Assumption
Future sales levels	Derived from the Company's multi-year revenue outlook.
Discount rate	Takes into account the risk-free rate, equity market risk and the specific risk premium for each CGU.
Long-term growth rate	Represents the rate relevant to market conditions and business plans. The long-term growth rate included in the terminal value in calculating the value in use for each CGU was 2.5%.

Management reviewed the discount rates used based on the prevailing market conditions as of 31 December 2022, the risk profile related to assumed future cash flows and other relevant considerations. The discount rates used in calculating the value in use for each CGU are given below:

Defence	14.5%
Space	21.4%
EM Solutions	17.0%

Sensitivity analysis

The Consolidated Entity conducted a sensitivity analysis to test changes in the key assumptions used to determine the recoverable amount for each of the CGUs. Sensitivity testing for CGUs included reducing our future sales levels by 10%, reducing the long-term growth rate to 0.5% and increasing the discount rate by an additional 3%.

For the Defence CGU, the recoverable amount as derived using the cash flow model, was assessed as being higher than the carrying value. As expected, and following the impairment provision recorded at 30 June 2022, sensitivity analysis indicated that a reasonable change in the key assumptions noted above would cause further impairment. As a result, and in light of the market capitalisation being significantly lower than the carrying value, management reviewed the carrying value of specific individual assets within the Defence CGU for impairment. In conclusion, it was determined that no further impairment charges were required at this time.

For the Space CGU, management observed that a reasonable change in future sales levels and discount rates would cause impairment. In applying these sensitivities, the maximum expected of the goodwill impairment is $2.5m.

These sensitivities in each case do not cause the recoverable amount of the EMS CGU to fall below its carrying value.

15. Intangible assets

	Core technology (not patented) $ '000	Patented technology $ '000	Software $ '000	Customer contracts and relationships $ '000	Licences $ '000	Total $ '000
Cost						
At 1 January 2021	10,772	3,556	486	2,776	4,835	22,425
Exchange differences	-	-	-	-	241	241
At 31 December 2021	**10,772**	**3,556**	**486**	**2,776**	**5,076**	**22,666**
Exchange differences	-	-	-	-	427	427
Disposal	-	-	-	-	(5,503)	(5,503)
At 31 December 2022	**10,772**	**3,556**	**486**	**2,776**	**-**	**17,590**
Amortisation						
At 1 January 2021	1,317	290	119	226	750	2,702
Exchange differences	-	-	-	-	32	32
Charge for the year	1,077	237	97	185	1,227	2,823
At 31 December 2021	**2,394**	**527**	**216**	**411**	**2,009**	**5,557**
Exchange differences	-	-	-	-	308	308
Charge for the year (Continuing and Discontinued Operations)	1,077	237	97	185	401	1,997
Impairment and write-off	-	-	-	-	2,785	2,785
Disposal	-	-	-	-	(5,503)	(5,503)
At 31 December 2022	**3,471**	**764**	**313**	**596**	**-**	**5,144**
Carrying Amount						
At 31 December 2022	**7,301**	**2,792**	**173**	**2,180**	**-**	**12,446**
At 31 December 2021	**8,378**	**3,029**	**270**	**2,365**	**3,067**	**17,109**

16. Property, plant and equipment

	2022 $ '000	2021 $ '000
(a) Plant and equipment – at cost	19,003	17,373
Less accumulated depreciation and impairment	(8,141)	(8,996)
	10,862	**8,377**
(b) Office equipment – at cost	5,326	4,730
Less accumulated depreciation and impairment	(3,721)	(2,812)
	1,605	**1,918**
(c) Furniture, fixtures and fittings – at cost	1,391	1,318
Less accumulated depreciation and impairment	(531)	(433)
	860	**885**
(d) Leasehold improvements – at cost	2,459	2,440
Less accumulated depreciation and impairment	(2,100)	(1,681)
	359	**759**
(e) Motor vehicle –at cost	678	610
Less accumulated depreciation and impairment	(394)	(284)
	284	**326**
(f) Computer software – at cost	1,628	1,589
Less accumulated depreciation	(1,364)	(963)
	264	**626**
(g) Test equipment – at cost	4,815	2,736
Less accumulated depreciation	(2,440)	(2,056)
	2,375	**680**
(h) Satellite – at cost	7,000	7,000
Less impairment	(7,000)	(7,000)
	-	**-**
(i) Capital works in progress	20,608	44,297
Less impairment	-	(1,790)
	20,608	**42,507**
Total net book value of Property, Plant and Equipment	**37,217**	**56,078**

16. Property, plant and equipment (continued)

Cost	2022 $ '000	2021 $ '000
Plant and equipment		
Balance at beginning of year	17,373	14,546
Additions	3,190	562
Transfers	1,204	2,036
Other movement	(31)	-
Disposals and write offs	(3,025)	(35)
Net foreign currency exchange differences	292	264
Balance at end of year	**19,003**	**17,373**
Office equipment		
Balance at beginning of year	4,730	3,775
Additions	971	866
Transfers	97	-
Disposals and write offs	(616)	(14)
Net foreign currency exchange differences	144	103
Balance at end of year	**5,326**	**4,730**
Furniture, fixtures and fittings		
Balance at beginning of year	1,318	1,300
Additions	79	18
Disposals and write offs	(26)	-
Net foreign currency exchange differences	20	0
Balance at end of year	**1,391**	**1,318**
Leasehold improvements		
Balance at beginning of year	2,440	2,261
Additions	279	309
Disposals and write offs	(336)	(133)
Net foreign currency exchange differences	76	3
Balance at end of year	**2,459**	**2,440**
Motor vehicles		
Balance at beginning of year	610	523
Additions	47	82
Net foreign currency exchange differences	21	5
Balance at end of year	**678**	**610**

16. Property, plant and equipment (continued)

Cost (continued)	2022 $ '000	2021 $ '000
Computer software		
Balance at beginning of the year	1,589	1,354
Additions	366	253
Disposals and write offs	(213)	(135)
Transfer	(4)	-
Other movements	(76)	114
Net foreign currency exchange differences	(34)	3
Balance at end of year	**1,628**	**1,589**
Test equipment - at cost		
Balance at beginning of the year	2,736	2,578
Additions	2,079	158
Balance at end of year	**4,815**	**2,736**
Satellite		
Balance at beginning of year	7,000	7,000
Balance at end of year	**7,000**	**7,000**
Capital works in progress		
Balance at beginning of the year	44,297	16,080
Additions	14,642	30,757
Transfer	(1,297)	(2,036)
Other movements	(226)	(817)
Disposals and write offs	(37,691)	-
Net foreign currency exchange differences	883	313
Balance at end of year	**20,608**	**44,297**

16. Property, plant and equipment (continued)

Accumulated depreciation/impairment	2022 $ '000	2021 $ '000
Plant and equipment		
Balance at beginning of year	(8,996)	(7,238)
Depreciation (Continuing Operations)	(1,877)	(1,595)
Disposals and write offs	3,025	-
Other movements	-	12
Net foreign currency exchange differences	(293)	(175)
Balance at end of year	**(8,141)**	**(8,996)**
Office equipment		
Balance at beginning of year	(2,812)	(1,939)
Depreciation (Continuing and Discontinued Operations)	(1,008)	(823)
Disposals and write offs	164	4
Other movements	(31)	-
Net foreign currency exchange differences	(34)	(54)
Balance at end of year	**(3,721)**	**(2,812)**
Furniture, fixtures and fittings		
Balance at beginning of year	(433)	(311)
Depreciation (Continuing and Discontinued Operations)	(117)	(122)
Disposals and write offs	25	-
Net foreign currency exchange differences	(6)	(0)
Balance at end of year	**(531)**	**(433)**
Leasehold improvements		
Balance at beginning of year	(1,681)	(1,322)
Depreciation (Continuing and Discontinued Operations)	(461)	(480)
Disposals and write offs	81	126
Net foreign currency exchange differences	(39)	(5)
Balance at end of year	**(2,100)**	**(1,681)**
Motor vehicle		
Balance at beginning of year	(284)	(172)
Depreciation (Continuing Operations)	(96)	(108)
Disposals and write offs	-	-
Net foreign currency exchange differences	(14)	(4)
Balance at end of year	**(394)**	**(284)**

16. Property, plant and equipment (continued)

Accumulated depreciation/impairment (continued)	2022 $ '000	2021 $ '000
Computer software		
Balance at beginning of the year	(963)	(550)
Depreciation (Continuing and Discontinued Operations)	(540)	(530)
Disposals and write offs	110	127
Other movements	-	(8)
Net foreign currency exchange differences	29	(2)
Balance at end of year	**(1,364)**	**(963)**
Test equipment		
Balance at beginning of the year	(2,056)	(1,760)
Depreciation (Continuing Operations)	(384)	(296)
Disposals	-	-
Net foreign currency exchange differences	-	-
Balance at end of year	**(2,440)**	**(2,056)**
Satellite		
Balance at beginning of year	(7,000)	(7,000)
Balance at end of year	**(7,000)**	**(7,000)**
Capital work in progress		
Balance at beginning of the year	(1,790)	-
Impairment (Discontinued Operations)	(31,931)	(1,790)
Disposals	33,721	-
Balance at end of year	**-**	**(1,790)**

Aggregate depreciation, impairment and amortisation allocated during the period is recognised as an expense and disclosed in Notes 2 and 5 to the financial statements.

Impairment of property, plant and equipment

The Consolidated Entity has assessed that capital work in progress with a carrying amount of $31,931,000 (2021: $1,789,867) is impaired. Refer note 14 for more details on impairment of assets, where this item is included in Discontinued Operations.

17. Current trade and other payables

	2022 $ '000	2021 $ '000
Trade payables	25,105	18,588
Accruals	18,074	16,783
Total	**43,179**	**35,371**

The average creditor days on purchases of goods is 60 days and no interest is payable on goods purchased within agreed credit terms. The Consolidated Entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

18. Contract Liabilities

	2022 $ '000	2021 $ '000
Contract liabilities	22,168	7,666

Contract liability represents amounts received from customers in advance of the satisfaction of relevant performance obligations under the applicable contracts. The Consolidated Entity expects to deliver the goods and services in question within the next 12 months, in accordance with the terms of the underlying contracts. The amount of $6,934,000 included in the contract liabilities at 31 December 2021 has been recognised in revenue in 2022 (2021: $26,506,642).

19. Borrowings

	Note	2022 $ '000	2021 $ '000
Secured borrowings	**Note**		
RNC Nominees Pty Ltd	(a)	-	34,448
Washington H. Soul Pattinson and Company Ltd ("WHSP")	(b)	70,834	-
Total secured borrowings		**70,834**	**34,448**
Unsecured borrowings		1,904	-
Total borrowings, net	(c)	**72,738**	**34,448**
Current portion		23,295	34,448
Non - current portion		49,443	-
Total borrowings, net	(c)	**72,738**	**34,448**

a) Secured borrowings - RNC Nominees Pty Ltd

On 27 August 2021 the Consolidated Entity entered into a $35m working capital facility with RNC Nominees Pty Ltd ('RNC facility'). The facility had a 12-month term and carried interest of 9% per annum. The loan was secured by a general security deed which ranked pari passu with the Export Finance Australia (EFA) Facility (see note 37c and d). The loan was repaid in full on 7 September 2022, using proceeds from new secured borrowing facilities from WHSP, with direct settlement between the two lenders. Details of the new loan are included in note b) below.

The RNC facility included a financial covenant that required the Consolidated Entity to have a total cash balance of $55m from 5 June 2022 (i.e. 90 days prior to the Maturity Date). As the Consolidated Entity's cash balance was below this level, the covenant was breached. As the loan was subsequently repaid on 7 September 2022, the covenant breach lapsed.

b) Secured borrowings - WHSP

As at 31st December 2022, the Group had three secured borrowings with WHSP ('WHSP facilities'):

(i) Working Capital Principal Facility of $20.0m. The agreement was entered into on 7 September 2022 with maturity date of 6 September 2023. The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term Loan Facility below and the Export Finance Australia Facility (see note 37c and 37d).

(ii) Additional Working Capital Principal Facility of $15.0m. The agreement was entered on 12 October 2022 with maturity date of 11 April 2024. The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term Loan Facility and the Export Finance Australia facility.

19. Borrowings (continued)

(iii) Term Loan Principal Facility of $35.0m. The agreement was entered into on 12 October 2022 with maturity date of 11 October 2025. The facility carries interest of 22% per annum and line fees of 4% and is secured by a general security deed which ranks pari passu with the Export Finance Australia facility.

As consideration for the entry into the new Term Loan Facility, the Company issued 7,653,040 new fully paid Ordinary Shares in the Company to WHSP for no cash consideration (see note 23). This has been treated as a share-based payment and included in borrowing costs.

All of the loans above have upfront fees comprising of work fees of 7.5% and establishment fees of 5%. The relevant amounts were capitalised into the facility limit at the commencement of the facility. Other transaction costs of $1,604,000 were also incurred in obtaining the WHSP Facilities.

The WHSP facilities specify a "Minimum Earn" amount under which, in the event of early repayment, EOS is required to pay the full interest and line fee that would otherwise be payable to maturity for the term of the facility. The total repayment including the Minimum Earn is a minimum of $120,000,000 and up to a maximum of $127,000,000.

As at 31st December 2022 the current portion of the WHSP Facility loans outstanding was $21,391,000 (2021 $Nil) and non -current portion was $49,443,000 (2021 $Nil)

The WHSP facilities include the following financial covenants:

(i) The asset coverage ratio is required to be more than 1.6:1 and is required to be tested each month until 31 December 2023 then is required to be tested each quarter.
(ii) The Cash inflows ratio is required to be more than 0.9:1. This ratio is defined as the EOS Group's actual cash inflows (over a 3-month period), relative to the Company's cash inflow forecast (over that 3-month period). This ratio is required to be tested each month until 31 December 2023.
(iii) The Cash outflows ratio is required to be less than 1.1:1. This ratio is defined as the EOS Group's actual cash outflows (over a 3-month period), relative to the Company's cash outflow forecast (over that 3-month period). This ratio is required to be tested each month until 31 December 2023.
(iv) Interest coverage ratio is required to be more than 2:1. This ratio is defined as EOS Group's net cash flow from operations (adjusted for interest payments) relative to the interest expense. This covenant applies on and from 31 December 2023 and is required to be tested quarterly.

Other borrowings issued by the Consolidated Entity do not include any covenants.

c) Total Borrowings

The total reported borrowings amount shown above include the total outstanding borrowings owing to lenders, including capitalised fees and interest, less the unamortised transaction costs of establishing borrowings:

	2022 $ '000	2021 $ '000
Total borrowings owing to lenders	85,467	35,000
Unamortised cost of establishing borrowings	(12,729)	(552)
Total borrowings, net	**72,738**	**34,448**

The weighted average interest rates paid during the year were as follows:

	2022 %	2021 %
Weighted average interest rate	20	9

The total principal drawn under these facilities is $70.0m. The arrangements require the Consolidated Entity to repay up to $127.0m.

20. Lease liabilities

	2022 $ '000	2021 $ '000
Analysed as follows:		
Current	3,939	5,160
Non-current	20,507	24,864
Total	**24,446**	**30,024**

Maturity analysis

	2022 $ '000	2021 $ '000
Year 1	5,480	6,761
Year 2	4,419	5,441
Year 3	4,794	5,686
Year 4	4,151	5,021
Year 5	3,942	4,747
Onwards	6,071	7,340
	28,857	**34,996**
Less: unearned interest	(4,411)	(4,972)
	24,446	**30,024**

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

21. Provisions

	2022 $ '000	2021 $ '000
Current		
Employee benefits	11,089	12,339
Decommissioning costs	250	250
Warranty (Refer Note 22)	873	1,589
Total	**12,212**	**14,178**
Non-current		
Employee Benefits	1,517	1,360
Provision for make good	1,570	1,053
Warranty (Refer Note 22)	6,476	4,836
Total	**9,563**	**7,249**

Movement on decommissioning costs

	2022 $ '000	2021 $ '000
Balance at 1 January	250	250
Balance as at 31 December	**250**	**250**

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

Movement in make good of premises – non-current

	2022 $ '000	2021 $ '000
Balance as at 1 January	1,053	503
Increase during the period from new lease	517	550
Balance as at 31 December	**1,570**	**1,053**

22. Warranty provisions

Movement in warranty provision

	2022 $ '000	2021 $ '000
Balance as at 1 January	6,425	12,260
Reductions resulting from expiry	(608)	(353)
Reduction resulting from change in estimate	-	(7,107)
Additional provisions recognised	1,709	1,625
Expenses incurred	(177)	-
Balance as at 31 December	**7,349**	**6,425**
Current (Refer Note 21)	**873**	**1,589**
Non-Current (Refer Note 21)	**6,476**	**4,836**

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

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

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

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

23. Issued capital

	2022 $ '000	2021 $ '000
Balance at the beginning of the financial year – Ordinary Shares	413,728	413,479
Issue of 12,500,000 equity shares at $1.20 per share on 4 July 2022 (Net of issuance cost of $583,000)	14,417	-
Issue of 168,737 equity shares at $1.20 per share on 27 July 2022 under the share purchase plan	203	-
Issue of 7,653,040 equity shares at $0.5096 per share on 13 Oct 2022 under financing arrangements for nil consideration	3,900	-
Loan repayments on 83,125 shares issued under the Loan Funded Share Plan at $2.99	-	249
Balance at end of the financial year	**432,248**	**413,728**

Fully Paid Ordinary Shares	2022 Number	2021 Number
Balance at beginning of financial year	150,914,229	149,579,229
Issue of new shares at $1.20 on 4 July 2022	12,500,000	-
Issue of new shares at $1.20 under the Share Purchase Plan on 27 July 2022	168,737	-
Issue of new shares at $0.51 on 13 October 2022	7,653,040	-
Issue of 1,185,000 new shares at $5.27 on 15 March 2021 under the Loan Funded Share Plan	-	1,185,000
Issue of 150,000 new shares at $4.06 on 31 May 2021 to a Director under the Loan Funded Share Plan	-	150,000
Balance at end of financial year	**171,236,006**	**150,914,229**

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The shares issued under the LFSP are restricted shares subject to vesting and performance criteria under the Plan detailed in Note 25 to the financial statements and are treated as in substance options for accounting purposes.

As consideration for the entry into the new term loan facility, the Company agreed to issue 7,653,040 new fully paid Ordinary Shares in the Company to WHSP for no cash consideration. The fair value of the shares issued is estimated to be approximately $3.9m, based on EOS volume weighted average price in the five days prior to 13 October 2022.

Shares issued under the LFSP are not included in issued capital as they are treated as in-substance options for accounting purposes.

24. Directors and employee Share Option Plan

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

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

The number of options granted is determined by the Directors and takes into account both Company and individual achievements against both qualitative and quantitative criteria.

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

Unlisted Options issued under the Employee Share Option Plan:

	2022		2021	
		Weighted average exercise price		Weighted average exercise price
	Number	$	Number	$
Balance at beginning of the financial year (i)	1,830,000	4.73	1,075,000	4.60
Granted during the year (ii)	-	-	755,000	4.91
Exercised during the year (iii)	-	-	-	-
Lapsed during the year (iv)	(1,110,000)	5.04	-	-
Balance at end of the financial year (v)	**720,000**	**4.26**	**1,830,000**	**4.73**
Exercisable at the end of the year	**192,500**	**2.99**	**110,000**	**2.99**

24. Directors and employees Share Option Plan (continued)

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2022	220,000	20/06/2018	31/03/2023	$2.99	$61,369
	220,000	16/11/2020	16/11/2025	$5.82	$197,134
	635,000	19/05/2020	18/05/2025	$4.75	$408,305
	475,000	15/03/2021	16/03/2026	$5.27	$744,800
	280,000	22/07/2021	22/07/2026	$4.31	$202,160
	1,830,000				**$1,613,768**
2021	220,000	20/06/2018	31/03/2023	$2.99	$61,369
	635,000	19/05/2020	18/05/2025	$4.75	$408,305
	220,000	16/11/2020	16/11/2025	$5.82	$197,134
	1,075,000				**$666,808**

(ii) Granted during the year

There were no options granted during the year

2021					
Staff options	475,000	15/03/2021	16/03/2026	$5.27	$744,800
Staff options	280,000	22/07/2021	22/07/2026	$4.31	$202,160
	755,000				**$946,960**

(iii) Exercised during the year

There were no options exercised during the year (2021: nil).

(iv) Lapsed during the year (2021: nil)

2022	(200,000)	19/05/2020	18/05/2025	$4.75	(128,600)
	(220,000)	16/11/2020	16/11/2025	$5.82	(197,134)
	(410,000)	15/03/2021	16/03/2026	$5.27	(642,880)
	(280,000)	22/07/2021	22/07/2026	$4.31	(202,160)
	(1,110,000)				**(1,170,774)**

(v) Balance at the end of the financial year

2022					
Staff options	220,000	20/06/2018	31/03/2023	$2.99	$61,369
Staff options	435,000	19/05/2020	18/05/2025	$4.75	$408,305
Staff options	65,000	15/03/2021	16/03/2026	$5.27	$744,800
	720,000				**$1,214,474**
2021					
Staff options	220,000	20/06/2018	31/03/2023	$2.99	$61,369
Staff options	220,000	16/11/2020	16/11/2025	$5.82	$197,134
Staff options	635,000	19/05/2020	18/05/2025	$4.75	$408,305
Staff options	475,000	15/03/2021	16/03/2026	$5.27	$744,800
Staff options	280,000	22/07/2021	22/07/2026	$4.31	$202,160
	1,830,000				**$1,613,768**

24. Directors and employees Share Option Plan (continued)

These staff options have similar vesting and forfeiture conditions as those issued under the LFSP summarised in Note 25. The options issued were priced using the Monte Carlo Simulation method model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

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

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

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

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

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from the employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 25 to the financial statements.

25. Loan Funded Share Plan

This note sets out the details on the Loan Funded Share Plan (LFSP). During 2022 no new loan funded shares were granted.

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

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

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

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

- The vesting conditions are split into two different tranches which are outlined in the tables below. Participants are required to satisfy the Vesting Conditions in order for their Shares to vest.

- While Participants hold their Shares, they will be subject to Forfeiture Conditions and Participants will forfeit their Shares if either they fail to satisfy the Vesting Conditions or they cease to be employed or continue to provide services to the Consolidated Entity in certain circumstances.

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

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

(a) participants continue to provide services to EOS on each of the vesting dates (or such other date on which the Board makes a determination as to whether the Vesting Conditions have been met);

(b) the performance hurdles set out below are satisfied, which relate to the Company's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for Shares to vest under each tranche; and

(c) further vesting conditions may apply to individualised arrangements.

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

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

25. Loan Funded Share Plan (continued)

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

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

Vesting conditions:	**Tranche A: (applies to 50% of the total number of shares to be issued above)**
	Measures and hurdles:
	1. EBIT of $5m for the 12 months ending 31 December 2018 (met); and 2. a Share Price Hurdle of $4.50 by 31 December 2019 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2019) (met)
	Vested Shares can be sold after:
	30-Jun-20: (25% of Vested Shares)
	30-Sep-20: (50% of Vested Shares)
	31-Dec-20: (75% of Vested Shares)
	31-Mar-21: (100% of Vested Shares)
	Other conditions and status:
	i. Defence Systems profit exceeds A$8m for 2018 and A$20m for 2019 (met); ii. Space Systems loss does not exceed A$3m for 2018 and A$2m for 2019 (met); iii. Defence Systems production exceeds 275 units for 2018 and 350 units for 2019. The production target for 2019 was originally 400 units, however, was varied by the Board to 350 units in accordance with its discretion and has been met.

25. Loan Funded Share Plan (continued)

2018 Loan funded shares (continued):	
Vesting conditions:	**Tranche B: (applies to 50% of the total number of shares to be issued above)**
	Measures and hurdles
	1. EBIT of $15m for the 12 months ending 31 December 2019; and 2. a Share Price Hurdle of $7.50 by 31 December 2021 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021) *.
	Vested Shares can be sold after:
	30-Jun-22: (25% of Vested Shares)
	30-Sep-22: (50% of Vested Shares)
	31-Dec-22: (75% of Vested Shares)
	31-Mar-23: (100% of Vested Shares)
	Other conditions and status:
	i. The original condition was that Defence Systems profit exceeds A$20m for 2020, however this was removed by the Board in accordance with its discretion due to COVID-19; ii. Space Systems profit exceeds $1.0m for 2020 (met)and $3.0m for 2021 (not met **); iii. Defence Systems production exceeds 272 units for 2020. The production target for 2020 was originally 480 units, however, was varied by the Board to 272 units in accordance with its discretion due to COVID-19 and has been met.

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

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

25. Loan Funded Share Plan (continued)

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

Vesting conditions:	**Tranche A: (applies to 50% of the total number of shares to be issued above)**
	Measures and hurdles: A share Price Hurdle of $9.50 by 31 December 2021 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021****).
	Vesting period: The period of 2 calendar years ending 31 December 2021
	Vested Shares can be sold after:
	30-Jun-22: (25% of Vested Shares)
	30-Sep-22:(50% of Vested Shares)
	31-Dec-22: (75% of Vested Shares)
	31-Mar-23: (100% of Vested Shares)
	Other conditions and status:
	i. Six staff members within EM Solutions must achieve an EBIT for EM Solutions of $3m for the year ended 31 December 2020 (met); ii. Eight senior executives including four KMP's originally had EBIT target for the Consolidated Entity of $27m for the year ended 31 December 2020, however this was removed by the Board as a result of COVID-19; iii. One executive in the former Communications Systems sector has specific project milestones in relation to his project*; and iv. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector. (all conditions met)

*Conditions were not met therefore options lapsed

25. Loan Funded Share Plan (continued)

2020 Loan funded shares (continued)	
Vesting conditions:	**Tranche B: (applies to 50% of the total number of shares to be issued above)**
	Measures and hurdles: A Share Price Hurdle of $11.50 by 31 December 2022 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2022 *****).
	Vesting period: The period of four calendar years ending 31 December 2023
	Vested Shares can be sold after:
	30-Jun-24: (25% of Vested Shares)
	30-Sep-24:(50% of Vested Shares)
	31-Dec-24: (75% of Vested Shares)
	31-Mar-25: (100% of Vested Shares)
	Other conditions and status:
	i. Six staff members within EM Solutions must achieve an EBIT for EM Solutions Pty Ltd of $3m for the year ended 31 December 2020 (met); ii. Eight senior executives including four KMP's have an EBIT target for the Consolidated Entity of $36m for the year ended 31 December 2021 (not met ******); iii. One executive in the former Communications Systems sector has specific project milestones in relation to his project (not met); and iv. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

*580,000 shares issued to KMP.

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

***830,000 shares issued to KMP.

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

***** This price hurdle date of 31 December 2022 was extended by three years by the Directors on 16 November 2021 for Executives and staff. As the price hurdle was not met, 1,250,000 shares issued to Directors lapsed on 31 December 2022.

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

25. Loan Funded Share Plan (continued)

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

Vesting conditions:	**Tranche A: (applies to 50% of the total number of shares to be issued above)**
	Measures and hurdles: A share Price Hurdle of $9.50 by 30 June 2023 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2023***).
	Vesting period: The period ending 30 June 2023
	Vested Shares can be sold after:
	30-Jun-23: (25% of Vested Shares)
	30-Sep-23: (50% of Vested Shares)
	31-Dec-23: (75% of Vested Shares)
	31-Mar-24: (100% of Vested Shares)
	Other conditions and status:
	i. Space Systems sector is EBIT positive in 2022***** ii. Defence Systems sector is EBIT positive in 2022***** iii. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

	Tranche B: (applies to 50% of the total number of shares to be issued above)
	Measures and hurdles: A Share Price Hurdle of $11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025****).
	Vesting period: The period ending 30 June 2025
	Vested Shares can be sold after:
	30-Jun-25: (25% of Vested Shares)
	30-Sep-25:(50% of Vested Shares)
	31-Dec-25: (75% of Vested Shares)
	31-Mar-26: (100% of Vested Shares)
	Other conditions and status:
	i. Space Systems sector is EBIT positive in 2024 ii. Defence Systems sector is EBIT positive in 2024 iii. Participants have to meet the additional hurdles established by the Directors in relation to each sector.

*345,000 shares issued to KMP.
** All shares issued to a director following approval at the AGM held on 28 May 2021.
*** This price hurdle date of 30 June 2023 was extended by three years by the Directors on 16 November 2021 for executives and staff.
**** This price hurdle date of 30 June 2025 was extended by three years by the Directors on 16 November 2021 for executives and staff.
***** Both Defence and Space Systems had negative EBIT in 2022 therefore this condition was not met resulting in 385,000 shares lapsing.

25. Loan Funded Share Plan (continued)

Other features of the LFSP structure

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

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

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

There may be circumstances where LFSP participants cease working for the Consolidated Entity prior to the vesting of their LFSP shares and where participants cease working for the entity after the vesting of their LFSP shares but prior to there being a right of sale of some or all of those vested shares. In either instance, on cessation of employment, the Board has discretion to determine whether the Participant is a Bad Leaver, a Good Leaver or a Leaver and the following provisions apply:

Bad Leaver. All Unvested Loan Funded Shares held by the Participant will be forfeited and any Vested Loan Funded Shares will be disposed of or Bought-back, in each case in accordance with the buy-back rules of the Scheme, if either:

- they remain subject to any Conditions or disposal restrictions;
- they remain held in trust (for any reason); or
- the Loan applicable to those Shares has not been repaid in full.

Good Leaver. Subject to the Board's discretion to determine otherwise (including the discretion to permit some or all Unvested Loan Funded Shares to vest based on its assessment of the circumstances in which the Participant has ceased employment), Unvested Loan Funded Shares will vest pro rata to the proportion of the Vesting Period that has elapsed as at the date on which employment ceases and having regard to the extent to which any Performance Conditions have been achieved (as determined by the Board). The balance of Loan Funded Shares that do not vest will be disposed of or Bought-back, in each case in accordance with the buy-back rules of the Scheme.

Leaver. Unvested Loan Funded Shares will normally be disposed of or Bought-back, in each case in accordance with the buy-back rules of the scheme, subject to the Board’s discretion to permit some or all of those Unvested Loan Funded Shares to vest based on its assessment of the circumstances in which the Participant has ceased employment.

A Good Leaver or Leaver may retain Vested Loan Funded Shares and may deal with any Vested Loan Funded Shares subject to repaying the outstanding Loan balance by the earlier of its expiry date or the date which is three months from the cessation date or twelve months in the case of a Participant who ceases employment due to death.

26. Reserves

	2022 $ '000	2021 $ '000
Foreign currency translation	277	(1,823)
Employee equity-settled benefits reserve	12,268	13,390
	12,545	**11,567**

Foreign currency translation		
Balance at beginning of financial year	(1,823)	(3,167)
Reclassification of FCTR Loss on disposal of foreign operations	4,175	-
Translation of foreign operations	(2,075)	1,344
Balance at end of financial year	**277**	**(1,823)**

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

Employee equity-settled benefits	2022 $ '000	2021 $ '000
Balance at beginning of financial year	13,390	11,580
Share based payment (reversal)/expense	(1,122)	1,810
Balance at end of financial year	**12,268**	**13,390**

The employee equity-settled benefits reserve arises on the grant of share options to directors and executives under the Employee Share Option Plan and LFSP. Further information about share-based payments to employees is made in Note 25 to the financial statements. Items included in employee equity-settled benefits reserve will not be reclassified subsequently to profit or loss.

A number of vesting conditions were not met in 2022 resulting in a reduction in the life to date expense and therefore a credit to profit and loss in 2022.

27. Accumulated losses

Employee equity-settled benefits	2022 $ '000	2021 $ '000
Balance at beginning of financial year	(93,959)	(80,953)
Net (Loss) attributable to members of the parent entity	(114,540)	(13,006)
Balance at end of financial year	**(208,499)**	**(93,959)**

28. Notes to the Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

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

	2022 $ '000	2021 $ '000
Cash and cash equivalents – current	21,681	59,261

(b) Reconciliation of (loss) before income tax to net cash flows from operating activities.

	2022 $ '000	2021 $ '000
Profit/(Loss) before income tax from Continuing Operations	(62,885)	15,974
Profit/(Loss) before income tax from Discontinued Operations	(61,954)	(20,586)
Profit/(Loss) before income tax	**(124,839)**	**(4,612)**
Reconciling items which include operating activities from both Continuing and Discontinued operations:		
Cash paid on bargain purchase included in investing activities	421	-
Accrued interest, finance costs and other financing expenses	6,414	-
Amortisation of intangibles	1,997	2,824
Equity settled share-based payments	(1,122)	1,810
Depreciation of property, plant and equipment	4,483	3,954
Impairment of assets	54,496	1,790
Depreciation of right of use assets	5,576	4,985
Loss on sale of property, plant and equipment	11	9
Tax paid	(1,014)	(2,627)
Foreign exchange movements	2,379	(1,544)
(Increase)/decrease in assets		
Receivables and contract assets	(20,584)	23,942
Inventories	(262)	(7,271)
Other assets and prepayments	205	(6,047)
Increase/(decrease) in liabilities		
Provisions	348	(3,661)
Trade and other payables	5,417	5,510
Deferred income	14,502	(18,841)
Net cash inflows / (outflows) from operating activities	**(51,572)**	**221**

29. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of Ordinary Shares held in subsidiaries are disclosed in Note 31.

(b) Key management personnel compensation

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

	2022 $ '000	2021 $ '000
Short term benefits	3,363	3,456
Post-employment benefits	243	278
Share based payments	(26)	999
Termination benefits	194	-
Long term benefits	101	304
Total	**3,875**	**5,037**

(c) Transactions with other related parties

Other related parties include associates, joint venture partners, and subsidiaries.
The Consolidated Entity did not enter into any transactions with other related parties outside of the ordinary course of business.

(d) Other transactions with key management personnel or director related entities

In December 2022, an invoice amount of $14,575 from Latour Pty Ltd, a company associated with Mr Garry Hounsell, in respect of directors' fees and superannuation for Garry Hounsell, was accrued and subsequently paid in January 2023.

During the year, the Company paid $70,000 (2021: $70,000) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors' fees and superannuation for Geoff Brown.

During the year, the Company paid $70,000) (2021: $17,500) to Technology Innovation Partners Pty Ltd, a company associated with Ms Kate Lundy in respect of directors' fees and superannuation for Kate Lundy.

During the year, no amounts were paid to 4F Investments Pty Limited (2021: $105,000), a company associated with Mr Fred Bart in respect of directors' fees and superannuation for Fred Bart, a former Director.

During the year, no amounts were paid to Dennis Corporate Services Pty Limited (2021: $29,166), a company associated with Mr Ian Dennis in respect of directors' fees and superannuation for Ian Dennis, a former Director.

During the year, no amounts were paid to Dennis Corporate Services Pty Limited (2021: $90,000), a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

(e) Parent entity

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

30. Acquisition of subsidiary

On 8 September 2021, Electro Optic Systems Pty Ltd, a wholly-owned subsidiary of EOS entered into an asset purchase agreement (APA) with Callaghan Innovation (Vendor) for the purchase of certain assets from KiwiStar Optics (KiwiStar, together the KiwiStar Assets) (the Transaction).

Upon satisfaction of various substantive conditions within the APA, EOS and the Vendor entered into letters of variation which varied the terms of the APA on 3 November 2021 and 7 April 2022 (together, the "Variation Agreement"). Also on 7 April 2022, EOS and the Vendor entered into a separate agreement relating to the settlement of certain claims in connection with the Variation Agreement (the "Settlement Agreement"). On signing of the Variation Agreement and Settlement Agreement on 7 April 2022, title to the KiwiStar Assets transferred from the Vendor to EOS.

The KiwiStar Assets include a mix of specialised scientific plant and machinery used to produce precision optics for astronomy purposes.

The operations of KiwiStar include strategic and operational processes for the production of precision optics for astronomy purposes, commercial outputs, and includes five key employees which were required to accept employment with EOS as a condition of the transaction. On completion of the acquisition, the balance of KiwiStar employees were also offered employment with EOS as per Clause 15 of the APA and accepted. These employees continue to manage the aforementioned strategic and operational processes.

Given the above, the transaction meets the criteria to be defined as a business as required by AASB 3 Business Combinations and has been treated as a business combination. The acquisition date has been determined as 7 April 2022.

The accounting for the Transaction has been provisionally determined as at 31 December 2022 using initial measurements which are subject to change during the measurement period. The measurement period shall not exceed one year from the date of acquisition and will end as soon as the deferred tax implications of the Transaction have been determined. Based on this, the provisional fair value of net assets acquired, and liabilities assumed are as follows:

Acquisition details:

	2022 $ '000
Property plant and Equipment	1,338
Employee related liabilities	(150)
Total net assets acquired	**1,188**
Satisfied by:	
Cash deposit paid in 2021	48
Cash paid in 2022	184
Cash paid for salary costs in 2022 which are treated as in-substance consideration	237
Prepaid rent reducing consideration paid	(151)
Total consideration	**318**
Provisional bargain purchase	**870**

30. Acquisition of subsidiary (continued)

A provisional bargain purchase gain of $870,000 has been recognised in the Consolidated Entity's consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2022 as the provisional value of the net assets of the acquired business is greater than the consideration paid. The bargain purchase gain arose as the seller was motivated to sell the assets to a known third party and the gain is included in Other Revenue under Note 2.

Acquisition related expenses of $14,000 have been expensed to profit and loss.

On acquisition date EOS Pty Ltd transferred the KiwiStar Assets to its wholly-owned New Zealand subsidiary, EOS Optical Technologies Limited (EOSOTL).

EOSOTL contributed $152,000 Revenue and a loss of $1,055,000 to the Consolidated Entity's loss before tax for the period between 7 April 2022 (date of acquisition) and the reporting date.

31. Controlled entities

Name of Entity	Country of Incorp-oration	December 2022 %	December 2021 %
Parent Entity			
Electro Optic Systems Holdings Limited (i), (ii)	Australia		
Controlled Entities			
Electro Optic Systems Pty Limited (ii), (iii)	Australia	100	100
EOS Defence Systems Pty Limited (ii), (iii)	Australia	100	100
FCS Technology Holdings Pty Limited (ii)	Australia	100	100
EOS Space Systems Pty Limited (ii)	Australia	100	100
EOS UAE Holdings Pty Limited (ii)	Australia	100	100
EOS Communications Systems Pty Ltd (ii)	Australia	100	100
EM Solutions Pty Ltd (ii), (iii)	Australia	100	100
EOS Loan Plan Pty Ltd (iv)	Australia	-	-
Australian Missile Alliance Pty Ltd (v)	Australia	100	100
EOS Optical Technologies Ltd (vi)	New Zealand	100	100
EOS Space Spectrum LLC	USA	-	100
SpaceLink Corporation (vii)	USA	-	100
EOS USA, Inc. (Inc in Nevada)	USA	100	100
EOS Technologies, Inc. (Inc in Arizona)	USA	100	100
EOS Defense Systems, Inc (Inc in Arizona)	USA	100	100
EOS Defense Systems USA Inc (Inc in Alabama) (viii)	USA	100	100
EOS Advanced Technologies LLC (ix)	UAE	49	49
EOS Optronics GmbH	Germany	100	100
EOS Defense Systems Pte Limited	Singapore	100	100

(i) Electro Optic Systems Holdings Limited is the head entity within the tax-consolidated Group.

(ii) These companies form part of the Australian consolidated tax entity.

31. Controlled entities (continued)

(iii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Electro Optic Systems Holdings Limited pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/875* and are relieved from the requirement to prepare and lodge an audited financial report.

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited entered into a deed of cross guarantee with two of its Australian wholly-owned subsidiaries Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, the parent entity Electro Optic Systems Holdings Limited entered into a Deed of Assumption which joined EM Solutions Pty Limited as part of the Deed of Cross Guarantee from the effective date of acquisition which was 11 October 2019.

(iv) EOS Loan Plan Pty Ltd is the trustee of the LFSP. EOS Loan Plan Pty Ltd was incorporated on 5 December 2019. Electro Optic Systems Holdings Limited has the ability to direct the relevant activities of the entity.

(v) On 2 June 2021, Australian Missile Alliance Pty Ltd was incorporated in Australia with the Consolidated Entity owning 100% of the issued share capital.

(vi) On 25 November 2021, EOS Optical Technologies Ltd was incorporated in New Zealand with the Consolidated Entity owning 100% of the issued share capital.

(vii) On 15 November 2022, EOS assigned its US subsidiary SpaceLink Corporation (SpaceLink) to an Assignee under an Assignment for the Benefit of Creditors (ABC) process in the United States. Under this process, the Assignee became responsible for the disposal of SpaceLink assets, the distribution of proceeds to the creditors, as well as the management of all of the winding up activities of the company. The Consolidated Entity therefore effectively lost control over SpaceLink as a result of this Assignment and there was an effective disposal.

(viii) Refer to note 1y.e on judgments made in relation to the consolidation of EOS Defense Systems USA Inc.

(ix) Whilst the Consolidated Entity owns less than 50% of the shares, pursuant to the shareholder and related agreements, it has existing rights that give it the ability to direct the relevant activities of the company and is entitled to 80% of company distributions.

Deloitte Touche Tohmatsu is the auditor of the Consolidated Entity. EOS Defense Systems Pte Limited is audited by Assurance Affiliates, Chartered Accountants in Singapore and EOS Advanced Technologies LLC is audited by M A International Consulting LLC in UAE and are the only entities with a separately appointed statutory auditor.

31. Controlled entities (continued)

(a) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the Deed of Cross Guarantee

The consolidated income statement of the entities which are parties to the Deed of Cross Guarantee are:

	2022 $ '000	2021 $ '000
Revenue and other income	130,504	206,175
Foreign exchange gains	7,383	9,908
Changes in inventories of work in progress and finished goods	(3,738)	4,569
Raw materials and consumables used	(81,836)	(114,359)
Employee benefits expense	(40,647)	(41,029)
Administration expenses	(22,696)	(16,216)
Amortisation of intangibles	(1,597)	(1,597)
Interest expense on lease liabilities	(1,170)	(1,006)
Interest on borrowings	(5,905)	(975)
Other finance costs	(7,030)	(4,452)
Depreciation of property, plant and equipment	(2,591)	(2,287)
Depreciation of right of use assets	(3,256)	(3,035)
Impairment of assets	(7,315)	-
Loss on disposal of subsidiary	(84,730)	-
Loss on sale of fixed assets	(11)	(9)
Occupancy costs	(1,421)	(1,195)
Other expenses	(2,297)	(1,831)
(Loss)/Profit before income tax	**(128,353)**	**32,661**
Income tax benefit/(expense)	9,405	(9,231)
(Loss)/Profit for the year	**(118,948)**	**23,430**

31. Controlled entities (continued)

(b) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the Deed of Cross Guarantee

The consolidated statement of financial position of the entities which are parties to the Deed of Cross Guarantee:

	2022 $ '000	2021 $ '000
CURRENT ASSETS		
Cash and cash equivalents	18,221	48,814
Trade and other receivables	6,182	21,300
Current tax asset	12,245	196
Contract assets	127,823	106,539
Inventories	69,180	69,080
Other	15,121	17,125
TOTAL CURRENT ASSETS	**248,772**	**263,054**
NON-CURRENT ASSETS		
Contract asset	36,520	21,245
Loans to subsidiaries	41,734	83,724
Deferred tax assets	3,326	4,506
Security deposit	35,444	22,558
Loan to associate	-	2,513
Right of use asset	15,900	20,490
Goodwill	12,373	14,878
Intangible assets	12,446	14,043
Property, plant and equipment	30,959	27,203
TOTAL NON-CURRENT ASSETS	**188,702**	**211,160**
TOTAL ASSETS	**437,474**	**474,214**
CURRENT LIABILITIES		
Trade and other payables	38,862	26,584
Secured borrowings	21,391	34,448
Unsecured borrowings	1,904	-
Lease liabilities	2,894	2,582
Contract liabilities	19,765	6,777
Provisions	10,162	11,734
TOTAL CURRENT LIABILITIES	**94,978**	**82,125**
NON-CURRENT LIABILITIES		
Secured borrowings	49,443	-
Lease liabilities	19,331	6,829
Provisions	9,082	19,070
TOTAL NON-CURRENT LIABILITIES	**77,856**	**25,899**
TOTAL LIABILITIES	**172,834**	**108,024**
NET ASSETS	**264,640**	**366,190**
EQUITY		
Issued capital	432,247	413,728
Reserves	12,269	13,390
Accumulated losses	(179,876)	(60,928)
TOTAL EQUITY	**264,640**	**366,190**

(b) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the Deed of Cross Guarantee (continued)

The consolidated accumulated losses of the entities which are party to the Deed of Cross Guarantee are:

	2022 $ '000	2021 $ '000
Balance at the start of the year	(60,928)	(84,358)
Net (loss)/profit for the year	(118,948)	23,430
Balance at end of the year	**(179,876)**	**(60,928)**

32. Joint operations

The Consolidated Entity is party to a joint operation. The Consolidated Entity has a share in the operation based on capital contributions that entitles it to a proportionate share of revenue earned from the operation. The operation is not yet active.

33. Financial risk management objectives and policies

The Consolidated Entity's principal financial instruments comprise receivables, payables, contract assets, borrowings, finance leases, cash and short-term deposits. These instruments expose the Consolidated Entity to a variety of risks that it must manage including, market risk (such as currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

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

The Directors consider that the carrying amount of financial assets and liabilities recognised in these financial statements approximate their fair values. The amounts disclosed in this note exclude contract asset balances as these ae not financial assets.

Risk Exposures and Responses

(a) Interest rate risk

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

At balance date the Consolidated Entity had the following mix of financial assets exposed to interest rate risk that are not designated in cash flow hedges:

Financial assets	2022 $ '000	2021 $ '000
Cash and cash equivalents	21,681	59,261
Security deposits	35,588	28,141
Total	**57,269**	**87,402**

At balance date the Consolidated Entity had financial liabilities with a fixed rate of interest. These liabilities therefore do not introduce an exposure to movement in interest rates.

Financial Liabilities	2022 $ '000	2021 $ '000
Borrowings	72,738	34,448
Total	**72,738**	**34,448**

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

At 31 December 2022, 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)	
	2022 $ '000	2021 $ '000	2022 $ '000	2021 $ '000
Consolidated				
+1% (100 basis points)	391	568	391	568
-0.1% (10 basis points)	(39)	(57)	(39)	(57)

The movements in profits are due to lower interest rates on cash balances.

33. Financial risk management objectives and policies (continued)

(b) Foreign currency risk

The Consolidated Entity's financial results can be significantly affected by movements in the US$/A$ exchange rates. There are also exposures to Singapore dollars, Emirati Dirham, Euro and the New Zealand dollars from operations in that country. Exchange rates are managed within approved policy parameters using natural hedges and no derivatives are used.

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

The policy of the Consolidated Entity is to convert surplus foreign currencies to Australian dollars. The Consolidated Entity also holds cash deposits in US dollars to secure US dollar bank guarantees and performance bonds to overseas customers.

At 31 December 2022, the Consolidated Entity had the following exposure to US$ foreign currency:

	2022 A$ '000	2021 A$ '000
Financial assets		
Cash and cash equivalents	11,056	41,183
Security deposits	34,136	26,925
Trade and other receivables	3,048	4,557
Total	**48,240**	**72,665**
Financial liabilities		
Lease liabilities	1,006	7,104
Trade and other payables	29,137	20,756
Total	**30,143**	**27,860**
Net exposure	**18,097**	**44,805**

All US$ denominated financial instruments were translated to A$ at 31 December 2022 at the exchange rate of 0.6775 (2021: 0.7261).

At 31 December 2022 and 2021, 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) 2022 $ '000	2021 $ '000	Equity Higher/(Lower) 2022 $ '000	2021 $ '000
Consolidated				
AUD/USD +10%	(10,787)	(10,901)	(10,787)	(10,901)
AUD/USD -5%	6,245	6,311	6,245	6,311

33. Financial risk management objectives and policies (continued)

At 31 December 2022, the Consolidated Entity had the following exposure to Singapore $ foreign currency

	2022 $ '000	2021 $ '000
Financial assets		
Cash and cash equivalents	1,612	1,025
Trade and other receivables	1,044	1,470
Total	**2,656**	**2,495**
Financial liabilities		
Trade and other payables	432	321
Lease liabilities	1,042	1,081
Total	**1,474**	**1,402**
Net exposure	**1,182**	**1,093**

All Singapore $ denominated financial instruments were translated to A$ at 31 December 2022 at the exchange rate of 0.9102 (2021: 1.0207).

At 31 December 2022 and 2021, 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)	
	2022 $ '000	2021 $ '000	2022 $ '000	2021 $ '000
Consolidated				
AUD/SING +10%	(75)	94	(75)	94
AUD/SING -5%	44	(23)	44	(23)

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

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

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties.

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

33. Financial risk management objectives and policies (continued)

(d) Liquidity risk management

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate risk management framework for the management of the Consolidated Entity's short, medium and long term funding and liquidity requirements. The Consolidated Entity manages liquidity by seeking to maintain adequate cash reserves, continuously monitoring forecast and actual cash flows and managing the maturity profiles of financial assets.

Liquidity and interest tables

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

Consolidated	Weighted average effective interest rate %	Less than 1 month $ '000	1-3 months $ '000	3 months to 1 year $ '000	1-5 years $ '000
2022					
Borrowings	20%			28,846	72,576
Trade payables and accruals	-	8,121	11,028	24,030	-
2021					
Borrowings	9%			34,448	
Trade payables and accruals	-	8,450	10,139	16,782	-

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

33. Financial risk management objectives and policies (continued)

Consolidated	Weighted average effective interest rate %	Less than 1 month $ '000	1-3 months $ '000	3 months to 1 year $ '000	1-5 years $ '000
2022					
Non-interest bearing					
Cash and cash equivalent	-	15,369	-	-	-
Receivables	-	4,711	1,385	277	-
Fixed interest rate		6,312	-	-	-
instruments	0.04%				
Total		**26,392**	**1,385**	**277**	37,957
2021					
Non-interest bearing					
Cash and cash equivalent	-	43,476	-	-	-
Receivables	-	16,867	5,459	65	-
Fixed interest rate					
instruments	0.04%	15,785	-	-	-
Total		**76,128**	**5,459**	**65**	**22,093**

(e) Price risk

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

(f) Categories of financial assets and liabilities

	2022 $ '000	2021 $ '000
Financial assets		
Amortised cost		
Cash and cash equivalents	21,681	59,261
Trade and other receivables	7,419	23,533
Security deposits	35,588	28,141
Loan to associate	-	2,513
Total at amortised cost	**64,688**	**113,448**
Current	29,100	82,794
Non-current	35,588	30,654

33. Financial risk management objectives and policies (continued)

	2022 $ '000	2021 $ '000
Financial liabilities		
Interest bearing loans and borrowings		
Borrowings	72,738	34,448
Lease liabilities	24,446	30,024
Total interest-bearing loans and borrowings	**97,184**	**64,472**
Current	27,234	39,608
Non-current	69,950	24,864
Debt instruments at amortised cost		
Trade and other payables	65,347	43,037
Total debt instruments at amortised cost	**65,347**	**43,037**
Current	65,347	43,037
Non-current	-	-

(g) Commodity price risk
The Consolidated Entity's exposure to commodity price risk is minimal. The Consolidated Entity does not make investments in equity securities.

34. Details of Associates

On 13 July 2022 Electro Optic Systems Pty Ltd and AEI Air (Holdings) (AEI) Limited entered into a settlement deed and release agreement wherein it was agreed that AEI would compensate EOS an amount of $3,181,000 (£1,642,000) for:

- the principal amount of the convertible notes of $2,905,000 (£1,500,000) referred to in note 36(i),
- interest of $261,000 (£135,000), and
- payment for ammunition used by AEI to date of $15,000 (£7,000).

This effectively cancelled both the Unsecured Convertible Note Deed and the Put and Call Option Deed thereby terminating the relationship between the Consolidated Entity and AEI.

AEI therefore ceased being an associate of the Consolidated Entity on this date.

Between 29 July and 2 August 2022 EOS received an amount of $2,843,000 (£1,615,000) representing the full settlement amount above of $2,891,000 (£1,642,000) less withholding tax of $47,000 (£27,000) (20% of the interest amount). $2,576,000 was allocated to the loan to AEI whilst the rest ($267,000) was allocated to the 2% interest in AEI, interest, and ammunition.

35. Segment Information - Continuing Operations

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.

Change in segments
EOS changed the structure of its internal organisation and reporting lines in a manner that caused the composition of its reportable segments to change. EOS identifies its operating segments based on internal reports reviewed and used by EOS' chief operating decision maker (the Chief Executive Officer) to determine business performance and resource allocation. Operating segments are aggregated after considering the nature of the products and services, nature of production processes, type of customer and distribution methods. As a result, the former Communications Systems and Space Systems segments were merged to form an enlarged Space Systems segment under unified management.

As a result, the Consolidated Entity's reportable segments are now Defence Systems and Space Systems.

Defence Systems

Defence Systems 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.

Space Systems

Space Systems has a range of ground products available to support the Australian and international space markets. They include:

- significant investments into passive optical and laser sensing equipment at both its Mt Stromlo and Learmonth sites;
- manufacturing and supply of various telescopes and dome enclosures for customers around the world. Space Systems astrometric products provide reliable and high-quality optical systems under demanding environmental conditions; and
- specialisation in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world. Developments in EOS laser technology has opened aligned markets in space optical communications and various high power laser applications.

Geographic Activity

The Consolidated Entity continues to operate in Australia, USA, Singapore, UAE, New Zealand 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.

35. Segment information - Continuing Operations (continued)

Segment Revenues - Continuing Operations	2022 $ '000	2021 $ '000
Space	31,961	27,815
Defence	105,951	184,516
Total of all segments	**137,912**	**212,331**

Segment Results - Continuing Operations	2022 $ '000	2021 $ '000
Space	(7,039)	(4,488)
Defence	(40,399)	24,738
Total of all segments	**(47,438)**	**20,250**
Unallocated holding company costs	(15,447)	(4,276)
(Loss) before income tax expense	**(62,885)**	**15,974**
Income tax benefit/ (expense)	9,278	(9,231)
(Loss) for the year	**(53,607)**	**6,743**

Prior year comparatives have been restated to reflect the change in reportable segments.

The revenue reported above represents revenue from external customers. The Consolidated Entity had two customers that each provided in excess of 10% of Consolidated Revenue. The customers are within both Defence and Space segments. One customer represented Revenue of $78,286,000 and the other represented $19,980,000 during the year.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, investment revenue and finance costs and income tax benefit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The SpaceLink business has been discontinued during the year and is presented under Discontinued Operations (Refer note 5).

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

Segment Assets and Liabilities - Continuing Operations

	Assets		Liabilities	
	31 December 2022 $ '000	31 December 2021 $ '000	31 December 2022 $ '000	31 December 2021 $ '000
Space	39,858	66,234	12,664	33,852
Defence	320,271	304,455	171,642	95,084
Total all segments	**360,129**	**370,689**	**184,306**	**128,936**
Unallocated cash and security deposit	57,269	87,402	-	-
Consolidated	**417,398**	**458,091**	**184,306**	**128,936**

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

35. Segment information - Continuing Operations (continued)

Other Segment Information - Continuing Operations

	Depreciation, impairment and amortisation of segment assets		Acquisition of segment assets	
	31 December 2022 $ '000	31 December 2021 $ '000	31 December 2022 $ '000	31 December 2021 $ '000
Space	51,895	6,704	5,896	21,900
Defence	8,998	3,830	3,858	11,104
Total all segments	**60,893**	**10,534**	**9,754**	**33,004**
Unallocated management	5,659	3,018	1,043	-
Consolidated	**66,552**	**13,552**	**10,797**	**33,004**

Information on Geographical Segments

31 December 2022

Geographical Segments	Revenue from external customers $ '000	Segment assets* $ '000	Acquisition of segment assets $ '000
Australia/Asia	39,027	406,066	10,725
Middle East - United Arab Emirates	84,767	1,809	24
Middle East - other	-	-	-
North America	4,342	9,520	48
Europe	9,776	4	-
Total	**137,912**	**417,399**	**10,797**

31 December 2021

Geographical Segments	Revenue from external customers $ '000	Segment assets* $ '000	Acquisition of segment assets $ '000
Australia/Asia	127,885	82,940	11,481
Middle East - United Arab Emirates	71,761	1,765	131
Middle East - other	33	-	-
North America	7,531	31,962	21,392
Europe	5,121	-	-
Total	**212,331**	**116,667**	**33,004**

*Segment Assets reflects the requirements of AASB 8.33 (b) and reflect only non-current assets other than financial instruments and deferred tax assets.

36. Parent entity disclosure

	2022 $ '000	2021 $ '000
Financial position		
Assets		
Current assets	13,531	7,951
Non-current assets	204,757	264,976
Total assets	**218,288**	**272,927**
Liabilities		
Current liabilities	30,068	35,977
Non-current liabilities	49,443	-
Total liabilities	**79,511**	**35,977**
Net assets	**138,777**	**236,950**
Equity		
Issued capital	432,248	413,728
Reserves	12,268	13,390
(Accumulated losses)	(305,739)	(190,168)
Total equity	**138,777**	**236,950**
Financial performance		
(Loss) for the period	(115,570)	(13,507)
Other comprehensive income		
	(115,570)	**(13,507)**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Guarantee provided under the Deed of Cross Guarantee	172,834	108,024

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

37. Contingent liabilities and commitments

(a) The Consolidated Entity maintains cash deposits with banks and financial institutions as security for various performance and rental bonds. The detail of such cash deposits is as per below:

	Note	2022 $ '000	2021 $ '000
Offset bond for a defence contract	(c)	10,741	4,444
Performance bond for a defence contract	(d)	23,395	17,427
Rental bonds		1,331	1,215
Performance bond for SpaceLink's satellite launch		-	5,055
Deposit for credit card guarantee		121	-
Total		**35,588**	**28,141**

(b) 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 consolidate entity.

(c) The Consolidated Entity executed an offset agreement in relation to an overseas defence contract for an amount of US$16,957,000 (US$25,029,000) 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$7,277,000 (A$10,741,000) and a fixed and floating charge over the assets of the Consolidated Entity.

(d) The Consolidated Entity maintains a performance bond for US$33,249,000 (A$49,076,000) 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$15,850,000 (A$23,395,000) and a fixed and floating charge over the assets of the Consolidated Entity.

(e) At 30 June 2022, the Consolidated Entity breached certain covenants associated with its EFA Facility Agreement. As a result, during the year EFA had the right to call the guarantees as detailed in c) and d) above. EFA did not exercise its right to call these guarantees and did not formally waive its right. In October 2022 these covenants were replaced with new covenants, identical to those specified under the WHSP loan facilities disclosed in Note 19. At 31 December 2022, the Consolidated Entity was not in breach of the new covenants applying at that date.

(f) 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 was 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.

(g) During the year ended 31 December 2022 Electric Optic Systems Pty Ltd and AEI Air (Holdings) Limited entered into a settlement deed in relation to a prior arrangement. As a result of that settlement deed, these arrangements have ended. Refer note 34 for details.

37. Contingent liabilities and commitments (continued)

The prior arrangement was that during the prior years, Electro Optic Systems Pty Limited, a wholly-owned subsidiary of Electro Optic Systems Holdings Limited, had entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to $3,707,020 (GBP2,000,000) as a series of convertible notes.

These arrangements were previously to 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 had 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 included provisions for Electro Optic Systems Pty Limited to make vendor loans of up to $3,176,916 (GBP1,714,000) to the vendors of AEI Air (Holdings) Limited which were fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option was exercised the loans were able to offset the exercise price on settlement.

As at the prior year, $2,780,265 (GBP1,500,000) had 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 held no direct equity in AEI Air (Holdings) Limited.

38. Subsequent Events

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

39. Additional Company Information

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

Registered Office
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Fax: 02 6299 7687

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39. Additional company information (contd)

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Fax: +971 2 492 7110

New Zealand Operations
69 Gracefield Road,
Gracefield
Lower Hutt, 5010
New Zealand

ASX ADDITIONAL INFORMATION

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 13 March 2023.

Distribution of shareholders

Size of holding	Number of shareholders	Ordinary shares	% of issued capital
100,001 and over	163	100,837,528	58.89
10,001 to 100,000	1,517	42,286,619	24.69
5,001 to 10,000	1,449	11,057,800	6.46
1,001 to 5,000	5,300	13,258,043	7.74
1 to 1,000	8,958	3,796,016	2.22
Total	**17,387**	**171,236,006**	**100.00**

Distribution of Option holders

The distribution of unquoted Options on issue are:

Size of Holding	Number of Option holders	Unlisted Options	% of Total Options
100,001 and over	3	400,000	56
10,001 to 100,000	10	320,000	44
5,001 to 10,000	-	-	-
1,001 to 5,000	-	-	-
1 to 1,000	-	-	-
Total	**13**	**720,000**	**100**

The options on issue are unquoted and have been issued under an employee incentive scheme.

Less than marketable parcels of Ordinary Shares
There are 8,051 shareholders with unmarketable parcels, holding 2,889,821 shares.

ASX ADDITIONAL INFORMATION

Twenty largest shareholders

At 13 March 2023 the 20 largest ordinary shareholders held 39.82% of the total issued fully paid quoted Ordinary Shares of 171,236,006

		Number held	**% of issued capital**
1	WASHINGTON H SOUL PATTINSON & COMPANY	14,537,983	8.49
2	EOS LOAN PLAN PTY LTD	12,009,375	7.01
3	CITICORP NOMINEES PTY LIMITED	8,022,895	4.69
4	CAPITAL PROPERTY CORPORATION PTY LTD <CARRINGTON A/C>	4,899,738	2.85
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,388,230	1.98
6	N & J PROPERTIES PTY LTD	3,194,816	1.87
7	TECHNOLOGY TRANSFORMATIONS PTY LIMITED <GREENE SUPER FUND A/C>	2,758,662	1.61
8	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,692,791	1.57
9	ACE PROPERTY HOLDINGS PTY LTD	2,558,200	1.49
10	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,277,676	1.33
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,113,103	1.23
12	BRAZIL FARMING PTY LTD	1,832,129	1.07
13	CAPITOL ENTERPRISES LIMITED	1,550,000	0.91
14	A AND D WIRE LIMITED	1,457,276	0.85
15	TECHNOLOGY INVESTMENTS PTY LTD	1,216,477	0.71
16	LUCKY DRAGON PROPERTY PTY LTD	1,082,161	0.63
17	BUNDARRA TRADING COMPANY PTY LTD <THOMAS EMERY KENNEDY A/C>	1,005,173	0.59
18	BOND STREET CUSTODIANS LIMITED <RSALTE - D62375 A/C>	881,666	0.51
19	MR TREVOR WRIGHT + MRS OLIVE WRIGHT <WRIGHT FAMILY SUPERFUND A/C>	700,000	0.41
20	BNP PARIBAS NOMS PTY LTD <DRP>	696,669	0.41
		68,875,020	**40.22**
	Remaining quoted equity securities	102,360,986	59.78
	Total number of Ordinary Shares on issue	**171,236,006**	**100.00**

Unquoted equity securities

The Company had the following unquoted securities on issue as at 13 March 2023:

	Number on issue	**Number of holders**
Options over Ordinary Shares	720,000	13

ASX ADDITIONAL INFORMATION

Substantial shareholders

The names of the Substantial Shareholders as disclosed in notices submitted to the ASX as at 13 March 2023 are:

Shareholder	Ordinary Shares	Percentage of total Ordinary shares
Washington H. Soul Pattinson and Company Limited	17,037,983	9.95%
EOS Loan Plan Pty Ltd	12,009,375	7.01%
Citicorp Nominees Pty Limited	8,690,548	5.08%

Restricted securities
The Company had no restricted securities on issue as at 13 March 2023.

Voting rights
In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll. Holders of performance rights have no voting rights.

On-market buy-backs
There is no current on-market buy-back in relation to the Company's securities.

Other Information

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

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