Electro Optic Systems Holdings Limited

ACN 092 708 364

Condensed consolidated financial statements for the half-year ended 30 June 2023

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period:	Half-year ended 30 June 2023
Previous Corresponding Period:	Half-year ended 30 June 2022

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %		Amount ($'000's)
Revenue from ordinary activities	**Up**	**38.2%**		**74,298**
(Loss) from ordinary activities after tax attributable to members	**Down**	**67.5%**	**To**	**(31,962)**
Attributable to Continuing Operations	Up	23.5%	To	(31,962)
Attributable to Discontinued Operations	Down	100%	To	-
Net (Loss) attributable to members	**Down**	**67.5%**	**To**	**(31,962)**

Dividends (Distributions)

	Amount per security	Franked amount per security
	Cents per security	Cents per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil
Record date for determining entitlements to the dividend:		
• Final dividend		N/A
• Interim dividend		N/A

Net Tangible Assets (NTA) at 30 June 2023 *	$174,581,972
Number of ordinary shares outstanding at 30 June 2023	171,236,006
NTA per ordinary share at 30 June 2023	101.9 cents per share
NTA per ordinary share at 30 June 2022	129.4 cents per share

** including Right of Use assets and lease liabilities recognised in accordance with AASB 16 Leases.*

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

Refer to Review of Operations on pages 3 to 12.

No dividends have been declared or paid.

Review of Operations

1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2023

Financial Results

The consolidated entity, consisting of Electro Optic Systems Holdings Limited ("Company") and the entities that it controls, ("Group" or "EOS") recorded Revenue from Continuing Operations of $74.3m, representing a $20.5m or 38.2% increase on the prior comparative period (30 June 2022: $53.8m).

The Loss After Tax, from Continuing Operations, was $32.4m, compared to a loss of $26.4m in the prior comparative period.

Underlying EBITDA from Continuing Operations (prior to charges for impairment losses and foreign exchange gains) was a loss of $14.8m, compared to an Underlying EBITDA loss from Continuing Operations of $24.2m in the prior comparative period.

The activities of a subsidiary, SpaceLink Corporation ("SpaceLink"), were discontinued during the second half of 2022 ("H2 2022"). For the comparative period to 30 June 2022, a loss of $72.6m was recognised relating to SpaceLink, which is recognised as Discontinued Operations in the comparative disclosures as at 30 June 2022.

Net cash generated by operations for the half-year ended 30 June 2023 totalled $30.7m, an increase of $47.8m on the prior comparative period (30 June 2022: $17.1m net cash used by operations, including $16.7m relating to Discontinued Operations).

At 30 June 2023, the Group held cash totalling $42.0m (31 December 2022: $21.7m).

Key elements of financial performance of the Group are summarised below.

Revenue from Continuing Operations

For the half-year ended 30 June 2023, the Group recorded Revenue from Continuing Operations of $74.3m (30 June 2022: $53.8m), representing an increase of $20.5m or 38.2% from the corresponding period.

This increase was driven by the Defence segment (June 2023: $50.7m compared to June 2022: $38.2m, representing a 32.8% increase). Revenue in the Space segment also increased from the prior comparative period (June 2023: $23.6m compared to June 2022: $15.6m, representing a 51.2% increase).

The underlying cause of these H1 2023 revenue increases was higher activity levels, including on the delivery of a Defence contract to a customer in the Middle East and on the EM Solutions contracts.

At 30 June 2023, the Group had a backlog order book of contracted work of over $450m. This represents work secured under customer contracts, mainly in Defence Systems and EM Solutions. This work is expected to be principally undertaken throughout the remainder of 2023 and in 2024 and 2025.

Expenses from Continuing Operations

Expenses from Continuing Operations increased from $94.4m in the prior period to $112.5m in the current period. The increase was driven by increased materials cost of $20.2m, with the margin remaining consistent with 2022. The increased finance costs of $9.9m are due to new facilities entered into in September 2022, whilst the reduced employee costs of $4.5m are the result of cost savings implemented from Q4 2022. Impairment losses reduced by $3.8m compared to the comparative period.

Review of Operations

Underlying EBITDA from Continuing Operations

Underlying EBITDA from Continuing Operations (prior to charges for impairment and foreign exchange gains) was a loss of $14.8m, compared to an underlying EBITDA loss of $24.2m in the prior comparative period.

Continuing operations	Period ended 30 June 2023 $m	Period ended 30 June 2022 $m
(Loss) for the period	**(32.4)**	**(26.4)**
Income tax (benefit)	(3.0)	(6.6)
(Loss) before tax	**(35.4)**	**(33.0)**
Impairment of assets	-	3.8
Finance costs	16.0	6.1
Foreign exchange (gains)	(2.4)	(6.4)
Underlying EBIT (loss) (before impairment and foreign exchange gains)	**(21.8)**	**(29.5)**
Depreciation and amortisation	7.0	5.3
Underlying EBITDA (loss) (before impairment and foreign exchange gains)	**(14.8)**	**(24.2)**

Foreign Exchange

The results included a foreign exchange gain in the half-year of $2.4m (2022: gain of $6.4m), which predominantly arose on the translation of US Dollar assets into Australian Dollars.

Discontinued Operations

During H2 2022, the Group ceased investment in SpaceLink and consequently SpaceLink ceased normal operations and entered into an orderly wind-up process in the United States, by way of an Assignment for the Benefit of Creditors (“ABC”).

The Group no longer controls SpaceLink as it is controlled by an Assignee under the ABC process, who acts in the interests of creditors. During the period ending 30 June 2023, the Group has not incurred any cash outflows related to SpaceLink and it does not expect to incur any future significant cash outflows related to SpaceLink.

SpaceLink has been represented as a Discontinued Operation in the comparative disclosures as at the half-year ending 30 June 2022. The results of Discontinued Operations in the comparative period ended 30 June 2022 are disclosed in Note 4 to the financial statements.

Review of Operations

Contract Asset

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

At 30 June 2023, the Group had a contract asset totalling $104.8m (31 December 2022 $164.4m), being revenue earned but not invoiced, mainly on a project with a significant overseas customer in the Middle East. This decrease of $59.6m during the half-year, was due to invoices issued to customers during the period exceeding revenue recognised on customer contracts.

This realisation of cash from the contract asset has been a critical focus for the Group and the improvement was in part due to a contract amendment agreed with our customer in the Middle East during the half-year ended 30 June 2023. This focus on reducing the contract asset will continue and is expected to contribute to cash realisations throughout 2023 and 2024.

Contract Liabilities

The Group recognises contract liabilities for amounts that have been received from customers as advance payments on projects. During the half-year, contract liabilities have decreased by $4.1m to $18.1m at 30 June 2023 (31 December 2022: $22.2m).

Funding and Cash balances

No new debt funding was drawn during the half-year to 30 June 2023. No equity was raised during the half-year. $1.6m was repaid against the unsecured loan during the reporting period.

At 30 June 2023, all borrowing facilities remain fully drawn. Total secured borrowings under these facilities, including capitalised initial fees and interest were $93.5m (31 December 2022: $83.6m).

The borrowing facilities are secured on certain Group assets, and the terms of these facilities include financial covenants, and minimum earn amounts. These are disclosed in the Notes to the Financial Statements in the 2022 Annual Report.

Subsequent to half-year end, as previously announced on 7 July 2023, the Group executed agreements to provide new guarantees for a $22.2m bond to a domestic customer in Australia. The guarantees were issued on the Group's behalf by funding providers and are secured by initial cash Security Deposits of $16.6m that the Group has provided to the guarantee issuers.

The bonds, guarantees and cash deposits are expected to be returned to EOS during 2023, 2024 and 2025 as various obligations are fulfilled.

Pursuant to the terms of the new EM Solutions contract with the Royal Australian Navy, a commitment for a further $6m bond has been entered into by the Group which is expected to be secured by cash and required in H2 2023.

The cash balance held by the Group increased from $21.7m at 31 December 2022 to $42.0m at 30 June 2023. The Group has debt repayment obligations falling due as follows:

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

In addition, future interest is payable as incurred.

Review of Operations

As at 28 August 2023 , the Group had approximately $83.1m cash balances on hand. The Group intends to use available cash balances to repay the $26.9m instalment due on 6 September 2023.

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 assess available options to restructure debt commitments or access additional equity or debt funding as required.

Cash Generated in Operating Activities

During the half-year, the Group had net cash inflows from operating activities of $30.7m, compared to net outflows of $17.1m in prior period (prior period includes $16.7m cash outflows from discontinued operations), representing an increase of $47.8m.

The improvement in cash generated from operating activities compared to the prior period, was achieved predominantly through improved Receipts from Customers of $123.3m, up from $74.5m in the prior period as a result of new business, reduced employee costs and the collection of the Contract Asset. Payments to Suppliers and Employees of $89.1m increased from $86.2m in the prior period, with the main difference being in increased supplier payments due to higher production during the current period offset by lower employee costs.

Cash Flow Used in Investing Activities

The Group had $6.1m of net cash outflows from investing activities during the half-year, which decreased from the comparative period net cash outflows from investing activities of $23.6m (prior period includes $5.5m cash outflows from discontinued operations). The investing activities cash payments during the period were attributable to $4.7m paid as increased cash security on bond facilities and capital expenditure of $1.4m.

2. COMPREHENSIVE PROGRAM OF CHANGE

The Group continued with the implementation of its program of change during the half-year. Further work is continuing in a number of areas, aimed at improving cash flow, profitability, funding and returns, including:

- continued 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;
- diversifying the range of products and customers, including initiatives to secure new customer contracts, including improving sales and marketing effectiveness; and
- rationing and prioritising capital expenditure, including R&D spending, towards core defence and space businesses, using commercial investment criteria, and seeking third party product development funding where appropriate.

3. STRATEGIC GROWTH PARTNERSHIPS AND/OR CAPITAL TRANSACTIONS

Whilst discussions are taking longer than originally anticipated, the Group continues discussions and negotiations with several parties in relation to potential strategic growth partnerships and/or capital transactions to support diversification into new geographic markets and/or to complement our existing products in existing markets. This is expected to continue during the second half of 2023. There is no certainty that any particular outcome or transaction will result from the process.

Review of Operations

4. DETAILED SEGMENT UPDATE

a) EOS DEFENCE SYSTEMS

Defence Systems had a positive half-year in H1 2023, with revenue increasing from $38.2m in June 2022 (prior comparative period) to $50.7m in the half-year to June 2023. This $12.5m increase was predominantly due to the impact of the continued focus on the contract for a large customer in the Middle East.

The main activity during the half-year was the manufacture and delivery of Remote Weapon Systems ("RWS") for a large customer in the Middle East.

Market Overview and Sales Activity – Defence Systems

Awarding of contracts have been delayed over the past several years as a result of governments deferring programs 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 resulted in some opportunities that were previously expected to be signed in 2022 and 2023 and commence delivering revenue, being delayed by customers.

In Australia, the Commonwealth of Australia published the outcome of its Defence Strategic Review. This review clarified the Australian Defence Force's ("ADF") future plans on key projects. This review has resulted in the rescoping of the ADF's Land 400 Phase 3 project which has been reduced from up to 450 Infantry Fighting Vehicles to 129 vehicles with a delay in the timing of expected delivery.

In July 2023, after the end of the half-year period, the Commonwealth of Australia announced that one of EOS's bid partners, Hanwha Defense Australia ("Hanwha"), has been selected as the Prime Contractor for the Land 400 Phase 3 project.

This announcement of the selection of Hanwha means that the Group may have the opportunity to provide RWS to Hanwha. In addition to providing RWS, the Group may have the opportunity to assist Hanwha/ELBIT Systems team in their work to manufacture turrets for the project.

Any future revenues for the Group will depend on a range of factors that are yet to be finalised in binding contracts. These include the final number of vehicles sought by the customer, the selection of subcontractors by Hanwha, and subsequent negotiations between the parties.

Subject to the outcome of further discussions and negotiations, it is anticipated that the Land 400 Phase 3 project now has the potential to give rise to revenues for the Group from 2026 onwards. There is no certainty that any particular outcome or transaction will result from these discussions.

More recently, the global market outlook strengthened as the 2023 year progressed, as many nations announced planned increases in defence spending. This may lead to increased opportunities in future.

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

In the half-year to 30 June 2023, the Group executed contracts with customers for the following new business:

- a conditional contract to supply RWS to Ukraine, valued at approximately $120m;
- a further conditional contract to supply RWS to Ukraine, valued at approximately $61m; and
- a contract with a Western European government to supply RWS, valued at approximately $52m.

Review of Operations

The two conditional contracts with Ukraine are conditional on demonstration testing and other customary terms for military contracts. Demonstration testing and related work is scheduled to occur in Q3 2023. Consistent with typical wartime contract arrangements, these contracts are also subject to conditional early termination rights in favour of the customer.

Following the completion of demonstration testing, the Group expects a review to occur with the Ukrainian end-users and customers, before committed orders are placed under the contracts.

Subsequent to half-year end, the Group delivered 80 RWS to a Western European Government customer, under a contract valued at approximately EUR 32m (A$52m). During July 2023, the Group received the first instalment of the cash proceeds from this customer totalling EUR 27m (A$44m).

The Group continues to be in active discussions and contract negotiations for the provision of RWS and related components with other potential customers. These opportunities have the potential to materially improve revenue and cash flow in future years. 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 half-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 14 R150 gimbals was received in January 2023, as part of the L3 Harris Vampire portable rocket program, under which the US is providing support to Ukraine. The order is for less than $10m and is expected to be completed by the end of 2023.
- Defence Systems launched its new “Slinger” counter-drone (or “CUAS”, Counter Unmanned Aerial System) product during May 2023. This draws upon EOS’ deep expertise in accurate pointing technology and applies it to the growing threat of drones. To date, an initial order for three systems has been received. These are expected to be sent to Ukraine as part of a USA security assistance package.
- following supply in previous years, a follow-on order was secured in Q4 2022 for 14 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 and 2024.
- Defence Systems also supported the integration and subsequent deployment of four R400 RWS equipped uncrewed ground vehicles (UGV) for a NATO customer. This deployment 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 half-year, discussions were held with potential customers and further demonstrations are occurring in August 2023. 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 continues on a range of opportunities. The Group is focused on obtaining third party funding for product development work, where appropriate, to speed delivery to the market and manage costs and capital.

Review of Operations

Supply Chain, Operations and Facilities – Defence Systems

Delivery against existing contracts in 2023 continues to be at risk of supply chain constraints. The normalisation of global supply chains has improved in some areas, however it continues to be a risk that is closely monitored by the Group.

b) EOS SPACE SYSTEMS

Revenue in the EOS Space Systems segment increased from the prior half-year (June 2023: $23.6m, 2022: $15.6m). 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 2023, Space Technologies continued to grow and commercialise its technology. This included delivering satellite laser ranging services to longstanding customers, and the successful completion of a beam director assembly for a foreign customer. Space Technologies continued to secure small contracts with international customers for Space Domain Awareness services and have successfully delivered on contract requirements. Our Kiwistar Optics business based in New Zealand continues to win contracts and deliver on time and on budget.

During the period, discussions were held with various potential partners to develop opportunities for Space Technologies in the market for space warfare solutions. This is an emerging market opportunity in both the United States and several other markets. Discussions to date have focussed on the Group's unique capabilities and potential opportunities for the Group to secure product development funding. These discussions are expected to continue in 2023 and 2024.

Space Technologies continues to develop sales opportunities on a range of 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 2023, EM Solutions continued to focus on delivering growth through the delivery of satellite communication systems to naval customers in Australia and Europe and working closely with customers to deliver leading products and continue to deliver profitable growth.

In the half-year to 30 June 2023, the EM Solutions business:

- executed a significant new contract for up to $202m to modernise communications across the Royal Australian Navy;
- continued work on its $26m three-year sustainment contract for the Royal Australian Navy's existing fleet of Cobra Maritime SATCOM terminals;

- was part of the team selected as preferred tenderer to deliver the Australian Defence Forces ("ADF") new military satellite communications capability; and
- secured new customer orders valued at $8.5m for Satellite Communication Terminals and Radio Frequency components.

EM Solutions continues to work closely with the ADF to support the Royal Australian Navy and other customers.

5. LONG-TERM INCENTIVE

A new long-term incentive plan was launched during the half-year period, consisting of share rights and share options, which is aimed at aligning staff and shareholders' long-term interests. The rights and options are subject to service conditions, performance hurdles and other customary terms and may result in vesting from 2025 onwards.

There is no change in share capital as a result of these allocations and it is anticipated that upon vesting, these allocations will be funded, to the fullest extent possible, by shares already issued and held in trust as lapsed shares from the existing Loan-Funded Share Plan.

During the half-year to 30 June 2023, 3,340,000 share options and 2,004,000 share rights were allocated to executive staff. Subsequent to year end, a further 2,348,920 share options and 895,617 share rights were allocated to executives and senior management.

6. SUBSEQUENT EVENTS

New Guarantees

Subsequent to half-year end, and as previously announced on 7 July 2023, the Group executed agreements to provide new guarantees for a $22.2m bond to a domestic customer in Australia. The guarantees were issued on the Group's behalf by funding providers and are secured by initial cash Security Deposits of $16.6m that the Group has provided to the guarantee issuers. The bonds, guarantees and cash deposits are expected to be returned to EOS during 2023 and 2024 as various obligations are fulfilled.

Delivery to Western European Government Customer

As previously announced on 31 July 2023, during July 2023, the Group delivered 80 RWS to a Western European Government customer, under a contract valued at approximately EUR 32m (approx. $A52m). During July 2023, the Group received the first instalment of the cash proceeds from this customer, totalling EUR 27m (A$44m). The remaining cash proceeds (of EUR 5m, approximately A$8m) are expected to be received in H2 2023.

Changes in share rights and options

895,617 share rights and 2,348,920 share options were allocated to Executives and staff on 14 July 2023.

No share rights or share options were issued to directors during or after the period.

Review of Operations

Offset Credit Obligation

EOS is obligated as part of its contract to supply a customer in the Middle East, to contribute to economic development in the country in order to offset against purchases of its products and services ("Offset Program"). This commitment is required to be secured by an offset bond of US$16.9 million (A$25.6 million) which is guaranteed by Export Finance Australia. In respect of the guarantee, an amount of US$10.5 million (A$15.8 million) has been placed on deposit, as disclosed in Note 10 (c).

Under the Offset Program, Offset Credits can be earned by (i) investing in the country; (ii) engaging in contracts that support local industry; or (iii) making other contributions. This is a common requirement for suppliers like EOS. Under the offset program guidelines, participants typically have several years in which to earn Offset Credits. As an alternative to generating Offset Credits through the Offset Program, in certain circumstances Offset Credits can be generated through participation in the Credit Purchase Program.

As part of the Offset Program, EOS is required to develop, agree and submit an approved business plan to the Offset Credit authority within specified time limits. Due to a range of issues, including changes in responsibilities between the relevant country's government agencies and identification by them of a suitable joint venture participant for the business plan proposed by EOS for the Offset Program, there have been delays and the joint venture business plan has not been approved by the government agency within the required time limits. Formal extensions had previously been granted to EOS in the past as a consequence of these delays. EOS has incurred significant expenditure in respect of the program to date. As at 30 June 2023, EOS was in ongoing discussions with counterparties and expected to resolve the delays with a mutually agreed outcome.

Subsequent to period end, during August 2023, the government agency wrote to EOS noting that due to the approved proposal not being finalised, it considered EOS not in compliance with its obligation to submit an approved business plan within the specified time limits. In addition, the government agency invited EOS to voluntarily participate in the Credit Purchase Program, with a maximum cost for EOS of US$35.0 million (A$52.8 million)

The government agency also indicated that, as EOS is not in compliance with its obligation to submit an approved business plan, if it does not participate in the voluntary Credit Purchase Program , it would consider EOS in default and may call upon the Offset Bond Bank Guarantee. If this bank guarantee was drawn upon in full, EOS would forfeit the security deposit of US$10,504,000 (A$15,842,000) and would be expected to pay a further US$6,453,000 (A$9,734,000) to the guarantee provider.

EOS has been in advanced discussions with the government agency during August 2023 to obtain agreement to submit a new business plan for their consideration and approval, and extend the deadline for achieving this to 30 September 2023. On 30 August the government agency granted an extension to the deadline to 30 September 2023 and therefore, as at the date of this report, EOS is not in default. As at the date of signing this report, EOS expects it will reach a mutual agreement on an approved business plan by 30 September 2023, or a mutually agreed extended deadline, and will therefore generate offset credits via economic activity. EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee. No provisions have been recorded for this matter at 30 June 2023.

Apart from items mentioned above, there were no significant subsequent events arising after 30 June 2023 and up to the date of this report.

Review of Operations

7. OUTLOOK

As outlined above, work continues throughout the Group on several initiatives, to improve cash flow, profitability, funding and returns.

Market and Customer Outlook

The market outlook for the Group's products continued to develop positively. This is due in part to the conflict in Ukraine and the impact on customer demand in NATO countries and other important markets.

The Group continues to work on potential sales opportunities. 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 and 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 30 June 2023, the Group had a contract asset of $104.8m, representing work done but not yet invoiced to customers. This has reduced by $59.6m or 36% since 31 December 2022. Management remains focussed on the continued progressive realisation of this significant asset, in the form of future cash receipts from customers. This is an important aspect of the Group's plans to reduce debt levels progressively as repayments fall due, and is targeted to allow improvements in the Group's financial position to be realised.

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.

Further information:
Andreas Schwer
Group CEO
31 August 2023

Directors' Report

The Directors of Electro Optic Systems Holdings Limited (the "Company") submit herewith its half-year financial report of the Company and the entities it controlled ("Group" or "EOS") at the end of, or during, the half-year ended 30 June 2023.

In order to comply with the provisions of *the Corporations Act 2001*, the Directors report as follows:

Directors

The names of the Directors of the Company during or since the end of the half-year are:

1. Mr Garry Hounsell (Chair)
2. Mr Geoffrey Brown AO
3. Ms Kate Lundy
4. Mr David Black
5. Mr Robert Nicholson (appointed 24 May 2023)
6. Dr Ben Greene (resigned 27 March 2023)
7. Mr Robert Kaye (resigned 20 March 2023)
8. Ms Deena Shiff (resigned 31 January 2023)

Review of Operations

A detailed review of operations is included on pages 3 to 12 of this financial report.

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.

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 14 of this half-year financial report.

Signed in accordance with a resolution of the Directors made pursuant to s.306 (3) of the *Corporations Act 2001.*

On behalf of the Directors

Garry Hounsell
Director and Chair

Canberra, 31 August 2023

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Auditor's Independence Declaration to the Directors of Electro Optic Systems Holdings Limited

As lead auditor for the review of the half-year financial report of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Electro Optic Systems Holdings Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Ben Tansley
Partner
31 August 2023

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2023

Continuing operations	Note	Half-year ended 30 June 2023 $(000's)	Half-year ended 30 June 2022 $(000's) (Restated)*
Revenue	3(a)	74,298	53,776
Interest received		264	144
Other income	3(b)	84	1,088
Foreign exchange gain	3(c)	2,373	6,416
Raw materials and consumables used		(45,977)	(25,743)
Changes in inventory work in progress and finished goods		(2,346)	(8,608)
Employee benefits expense	3(d)	(26,881)	(31,393)
Occupancy costs		(847)	(912)
Administrative and other expenses		(13,459)	(12,596)
Finance cost	3(d)	(15,962)	(6,080)
Depreciation of property, plant, and equipment	3(d)	(4,009)	(1,882)
Depreciation of right of use assets	3(d)	(2,211)	(2,575)
Amortisation of intangible assets	3(d)	(798)	(798)
Impairment of assets	6	-	(3,789)
Loss on sale of fixed assets		-	(10)
(Loss) before tax from continuing operations		**(35,471)**	**(32,962)**
Income tax benefit	7	3,040	6,580
(Loss) for the period from continuing operations		**(32,431)**	**(26,382)**
Discontinued operations			
(Loss) after tax for the period from discontinued operations	4	-	(72,564)
(Loss) for the period		**(32,431)**	**(98,946)**
Attributable to:			
Owners of the Company		(31,962)	(98,442)
Non-controlling interests		(469)	(504)
		(32,431)	**(98,946)**

* Comparative period restated for discontinued operations

Other comprehensive income

Items that may be reclassified in future to profit and loss (net of tax)			
Exchange differences on translation of foreign operations		259	2,260
Total other comprehensive income		**259**	**2,260**
Total comprehensive (loss) for the period, net of tax		**(32,172)**	**(96,686)**
Attributable to:			
Owners of the Company		(31,703)	(96,182)
Non-controlling interests		(469)	(504)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2023

Earnings (loss) per share:	Note	Half-year ended 30 June 2023 cents per share	Half-year ended 30 June 2022 cents per share
Basic			
From Continuing Operations	5	(20.1)	(18.7)
From Discontinued Operations	5	-	(52.2)
Total	5	**(20.1)**	**(70.9)**
Diluted			
From Continuing Operations	5	(20.1)	(18.7)
From Discontinued Operations	5	-	(52.2)
Total	5	**(20.1)**	**(70.9)**

Notes to the condensed consolidated financial statements are included on pages 20 to 34.

Condensed Consolidated Statement of Financial Position as at 30 June 2023

	Note	30 June 2023 $(000's)	31 December 2022 $(000's)
Current assets			
Cash and cash equivalents		42,029	21,681
Trade and other receivables		20,070	7,419
Income tax receivable		17,132	12,245
Contract asset		68,066	127,899
Inventories		72,904	74,841
Prepayments		16,548	17,591
Total current assets		**236,749**	**261,676**
Non-current assets			
Contract asset		36,692	36,520
Deferred tax asset		2,616	3,326
Security deposits		41,205	35,588
Right-of-use assets		22,136	18,252
Goodwill		12,373	12,373
Intangible assets		11,648	12,446
Property, plant and equipment		35,183	37,217
Total non-current assets		**161,853**	**155,722**
Total assets		**398,602**	**417,398**
Current liabilities			
Trade and other payables		44,247	43,179
Contract liabilities		18,056	22,168
Secured borrowings	8	43,529	21,391
Unsecured borrowings	8	277	1,904
Lease liabilities		4,973	3,939
Provisions		10,283	12,212
Total current liabilities		**121,365**	**104,793**
Non-current liabilities			
Secured borrowings	8	39,732	49,443
Lease liabilities		23,162	20,507
Provisions		13,124	9,563
Total non-current liabilities		**76,018**	**79,513**
Total liabilities		**197,383**	**184,306**
Net assets		**201,219**	**233,092**
Equity			
Issued capital	11	432,248	432,248
Reserves		13,103	12,545
Accumulated losses		(240,461)	(208,499)
Equity attributable to owners of the Company		204,890	236,294
Non-controlling interests		(3,671)	(3,202)
Total equity		**201,219**	**233,092**

Notes to the condensed consolidated financial statements are included on pages 20 to 34.

Condensed Consolidated Statement of Changes in Equity
for the half-year ended 30 June 2023

	Accumulated losses $(000's)	Issued capital $(000's)	Foreign currency translation reserve $(000's)	Employee equity settled benefits reserve $(000's)	Attributable to owners of the parent $(000's)	Non-controlling interests $(000's)	Total Equity $(000's)
2023							
Balance at 1 January 2023	**(208,499)**	**432,248**	**277**	**12,268**	**236,294**	**(3,202)**	**233,092**
(Loss) for the period	(31,962)				(31,962)	(469)	(32,431)
Exchange differences on translation of foreign operations	-	-	259	-	259	-	259
Total comprehensive (loss)/profit for the period	**(31,962)**	**-**	**259**	**-**	**(31,703)**	**(469)**	**(32,172)**
Share-based payments expense	-	-	-	299	299	-	299
Balance at 30 June 2023	**(240,461)**	**432,248**	**536**	**12,567**	**204,890**	**(3,671)**	**201,219**
2022							
Balance at 1 January 2022	**(93,958)**	**413,728**	**(1,823)**	**13,390**	**331,337**	**(2,181)**	**329,156**
(Loss) for the year	(98,442)	-	-	-	(98,442)	(504)	(98,946)
Exchange differences on translation of foreign operations	-	-	2,260	-	2,260	-	2,260
Total comprehensive (loss)/profit for the period	**(98,442)**	**-**	**2,260**	**-**	**(96,182)**	**(504)**	**(96,686)**
Share-based payments expense (reversal)	-	-	-	(320)	(320)	-	(320)
Balance at 30 June 2022	**(192,400)**	**413,728**	**437**	**13,070**	**234,835**	**(2,685)**	**232,150**

Notes to the condensed consolidated financial statements are included on pages 20 to 34.

Condensed Consolidated Statement of Cash Flows for the half-year ended 30 June 2023

	Half-year ended 30 June 2023 $(000's)	Half-year ended 30 June 2022 $(000's)
Cash flows from operating activities		
Receipts from customers	123,263	74,490
Payments to suppliers and employees	(89,089)	(86,189)
Income tax paid	(385)	(889)
Interest and bill discounts received	103	7
Interest and other costs of finance paid	(3,157)	(4,483)
Net cash inflows/(outflows) from operating activities	**30,735**	**(17,063)**
Cash flows from investing activities		
Payments for property, plant, and equipment	(1,363)	(16,066)
Security deposits for performance bond	(4,706)	(7,147)
Payment to acquire a business	-	(421)
Net cash (outflows) from investing activities	**(6,069)**	**(23,634)**
Cash flows from financing activities		
Repayment of lease liabilities	(2,253)	(2,559)
Proceeds from borrowings	-	-
Repayment of borrowings	(1,627)	-
Net cash (outflows) from financing activities	**(3,880)**	**(2,559)**
Net increase/(decrease) in cash and cash equivalents	**20,786**	**(43,256)**
Cash and cash equivalents at the beginning of the half-year	21,681	59,261
Effects of exchange rate changes on cash held in foreign currencies	(438)	(2,162)
Cash and cash equivalents at the end of the half-year	**42,029**	**13,843**

Notes to the condensed consolidated financial statements are included on pages 20 to 34.

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2023

1. Summary of Accounting Policies

a) Basis of preparation of consolidated financial statements

The half-year condensed consolidated financial statements are a general-purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's most recent annual consolidated financial statements as at 31 December 2022.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2022 annual financial report for the financial year ended 31 December 2022. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The condensed consolidated financial statements were authorised for issue by the Directors on 31 August 2023.

b) 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 and at amounts stated in the financial report.

For the half-year ended 30 June 2023, the Group incurred a Loss Before Tax from Continuing Operations of $35.5m (June 2022: loss of $33.0m) and had a net cash inflow from operating activities of $30.7m (June 2022: net outflows of $17.1m), a net increase in cash and cash equivalents held of $20.8m (June 2022: decrease of $43.3m) and has debt repayments of $47.7m due within the next 12 months.

In September and October 2022, the Group entered into binding agreements with a financier for new borrowing facilities, the details of which are disclosed in Note 19 Borrowings, in the 2022 Annual Report. As at the date of this report, all facilities were fully drawn.

Under the borrowing facilities, repayment of the total balances is required as follows:

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

The Group has sufficient cash at bank to make the required debt repayment of $26.9m on 6 September 2023.

Based upon the information available at the date of this report, including current estimates of cash inflows, including contract wins, the Group forecasts it will generate sufficient net cash flows to fund the required repayment of borrowings of $20.5m in April 2024.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

1. Summary of Accounting Policies (continued)

(b) Going concern (continued)

The Directors, in their consideration of the appropriateness of the going concern basis for the preparation of the half-year condensed consolidated financial statements, have caused to be prepared a cash flow forecast through to December 2024. This cash flow forecast supports the ability of the Group 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 Group, the need to convert the contract asset into cash, the ongoing loan repayment requirements and the potential need to obtain further funding.

The Group is required to comply with borrowing covenants each month, which if not met, give the lender the right to seek immediate repayment. The covenants include a comparison of cash inflows and outflows calculated on a rolling three-month basis, with forecasts provided to the lender. During the half-year ended 30 June 2023, and in the period up to the date of this announcement, the Group worked with the lender to ensure it did not breach cash inflow or outflow covenants. The Group complied with all other covenant requirements.

An updated cash flow forecast was provided to the lender in July 2023 for the six months to 31 December 2023, as required under the covenants.

After 30 June 2023, EOS was in correspondence and discussion relating to Offset Credit Obligations in the Middle East. Detailed information is set out in Note 13 Subsequent Events. EOS expects to generate offset credits via economic activity and EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee.

The Group continues to closely monitor its cash flow outlook and compliance with its borrowing covenants. The ability of the Group to maintain liquidity, repay debts, and meet its borrowing covenants is dependent on the Group continuing to invoice customers and collect cash in a timely manner. Should it appear that borrowing covenants may not be complied with, or the Group may not be in a position to meet debt repayments, or the Group may not have adequate liquidity for its operations, the Directors will assess available options to restructure debt commitments or access additional equity or debt funding as required.

In the opinion of the Directors, the ability of the Group to continue as a going concern and pay its debts as and when they become due and payable is dependent on:

- the receipt of significant cash collections from customers as a result of:
    a) the continued realisation of the contract asset;
    b) key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- the continued ability of the Group to deliver contracts on time, to the required specifications and within budgeted costs;
- the Group reaching a satisfactory agreement in relation to plans to acquit the Offset Obligations arising under an overseas contract. See Note 13 for further details;
- to the extent required to meet the repayment obligations under borrowing arrangements, the successful completion of further debt or equity raisings;
- the continued forbearance of creditors in respect of amounts which may be beyond normal payment terms;
- the continued adherence to borrowing covenants by the Group, and the forbearance of lenders regarding any covenant breaches should any arise; and
- conversion of key opportunities within the Defence and Space sector pipelines.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

1. Summary of Accounting Policies (continued)

(b) Going concern (continued)

The Directors note that whilst the Group 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 Group should this be required.

If the Group 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 Group, the Group reaching a satisfactory agreement in relation to plans to acquit the Offset Obligations, 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 Group 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 Group not continue as a going concern.

c) Critical accounting judgements

Management makes estimates and assumptions concerning the future. The resulting accounting estimates may not, by definition, equal the related actual results.

Recoverability of goodwill and impairment of assets
The Group assesses each cash-generating unit (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.

a) *Impairment of Discontinued Operations*
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 in the comparative period. More information is included in Note 4.

b) *Impairment of Continuing Operations*
The Group performed an assessment for indicators of impairment at 30 June 2023 as required by the accounting standards and concluded no indicators exist that warrant a full impairment test at the half-year end. Refer to Note 6 for further details.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

1. Summary of Accounting Policies (continued)

d) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the condensed consolidated financial statements for the half-year are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the full year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. Several amendments apply for the first time on 1 January 2023, but do not have a material impact on the condensed consolidated financial statements of the Group.

2. Segment Information – Continuing Operations

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker in order to allocate resources to the segment and to assess performance.

The Group considers the business to have two reportable business segments, Space Systems and Defence Systems.

a) Space Systems

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

- 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.

b) 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, Europe and South-east Asia markets.

<u>Geographic Activity</u>

The Group 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 manufacture of microwave satellite dishes and receivers.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

Revenue by segment	Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
Space	23,560	15,578
Defence	50,738	38,198
Total segment revenue	**74,298**	**53,776**
Results by segment		
Space	(395)	(3,378)
Defence	(17,499)	(25,695)
Total segment results	**(17,894)**	**(29,073)**
Unallocated	(17,577)	(3,889)
Segment (loss) before tax	**(35,471)**	**(32,962)**
Income tax benefit	3,040	6,580
Segment (loss) for the period	**(32,431)**	**(26,382)**

The revenue reported above represents revenue from external customers.

Segment results represents the (loss) earned by each segment without the allocation of some central administration and corporate costs, including director fees, finance costs, investment revenue and income tax benefit. The SpaceLink business has been discontinued during the previous year and is presented under Discontinued Operations (refer note 4).

The following table represents the Group's assets and liabilities by reportable operating segment:

	Assets		Liabilities	
	30 June 2023 $(000's)	31 December 2022 $(000's)	30 June 2023 $(000's)	31 December 2022 $(000's)
Space	62,575	39,858	22,653	12,664
Defence	252,792	320,271	174,730	171,642
Total segment assets/liabilities	**315,367**	**360,129**	**197,383**	**184,306**
Unallocated cash/security deposit	83,235	57,269	-	-
Total	**398,602**	**417,398**	**197,383**	**184,306**

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

3. (Loss) Before Tax from Continuing Operations

(a) Revenue from operations	Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
Revenue from operations consisted of the following items:		
Revenue from sale of goods	61,134	48,288
Revenue from rendering of services	13,164	5,488
Total revenue	**74,298**	**53,776**

Disaggregation of revenue

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

Timing of revenue recognition:	Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
Revenue recognition over time		
Defence segment		
Sale of goods	36,880	32,254
Provision of services	6,316	2,608
Space segment		
Sale of goods	10,874	9,904
Provision of services	1,370	1,038
Total revenue recognised over time	**55,440**	**45,804**
Revenue recognition at a point in time		
Defence segment		
Sale of goods	6,797	2,347
Provision of services	745	989
Space segment		
Sale of goods	6,584	3,783
Provision of services	4,732	853
Total revenue recognised at a point in time	**18,858**	**7,972**
Total revenue recognised	**74,298**	**53,776**

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

3. (Loss) Before Tax from Continuing Operations (continued)

(b) Other income	Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
Grant Income	62	108
Interest received	264	144
Other income	22	110
Bargain purchase	-	870
Total other income	**348**	**1,232**

	Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
(c) Foreign exchange gains		
Foreign exchange gains	2,373	6,416
(d) Expenses		
Loss for the period includes the following expenses:		
Employee benefit expense:		
Share based payment (equity settled) expense/(reversal)	299	(320)
Contributions to defined contribution superannuation plans	2,097	2,544
Other employee benefits	24,485	29,169
Total employee benefits expense	**26,881**	**31,393**
Interest expense:		
Interest on secured borrowings	8,324	3,276
Interest on lease liabilities	747	662
Other finance costs	6,891	2,142
Finance costs	**15,962**	**6,080**
Amortisation of Intangible assets	798	798
Depreciation of property, plant and equipment	4,009	1,882
Depreciation on right of use assets	2,211	2,575
Impairment of Goodwill allocated to Defence Systems (Note 6)	-	2,505
Impairment of ROU asset in Defence Systems (Note 6)	-	1,284

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

4. 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 Group therefore effectively lost control over SpaceLink as a result of this Assignment and there was an effective disposal.

The activities relating to SpaceLink were classified as a discontinued operation in the consolidated financial statements for the year ended 31 December 2022. 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.

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

The results of SpaceLink Corporation are presented below:

	Half-year ended 30 June 2023 $(000's)	Half-year ended 30 June 2022 $(000's)
Employee benefit expenses	-	(5,867)
Occupancy costs	-	(138)
Administration expenses	-	(10,364)
Other expenses	-	(492)
Amortisation of Intangible assets	-	(641)
Depreciation of property plant and equipment	-	(74)
Depreciation of right of use assets	-	(443)
Finance cost	-	(108)
Impairment loss	-	(47,181)
Onerous contract provision	-	(7,256)
Loss before tax from discontinued operations	**-**	**(72,564)**
Tax expense	-	-
Net Loss for the year attributable to discontinued operations	**-**	**(72,564)**

The net cash flows incurred by SpaceLink were:

Cash flow – discontinued operations	Half-year ended 30 June 2023 $(000's)	Half-year ended 30 June 2022 $(000's)
Operating cash flows	-	(16,675)
Investing cash flows	-	(5,494)
	-	**(22,169)**
Financing cash flows (provided by continuing operations)	**-**	**22,224**

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

5. Earnings Per Share

	Half-year to 30 June 2023 ¢ per share	Half-year to 30 June 2022 ¢ per share
Basic		
Continuing operations	(20.1 cents)	(18.7 cents)
Discontinued operations	-	(52.2 cents)
Total	**(20.1 cents)**	**(70.9 cents)**
Diluted EPS		
Continuing operations	(20.1 cents)	(18.7 cents)
Discontinued operations	-	(52.2 cents)
Total	**(20.1 cents)**	**(70.9 cents)**

Calculation of basic and diluted 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		Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
(Loss) for the year attributable to equity holders of parent		(31,962)	(98,442)
Adjustment to exclude loss for Discontinued Operations	4	-	72,564
(Loss) from Continuing Operations for the purpose of basic and diluted earnings per share		**(31,962)**	**(25,878)**

		30 June 2023 Number	30 June 2022 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share parent	(a) (b)	159,226,631	138,904,854

(a) 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 the Group made a loss in the period.

(b) Shares issued under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in-substance options for accounting purposes. The options are not considered dilutive given the Group 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.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

6. Impairment of Assets

The Group performed an assessment for indicators of impairment at 30 June 2023 as required by the accounting standards and concluded no indicators exist that warrant a full impairment test at the half-year end.

The assessment for indicators included, but was not limited to, an evaluation of the following factors:

- Overall business performance in the half-year of each segment, including improvement in cash collections, increased operating cash flows compared to previous half year, new contract wins and increases in the order book;
- Independent valuation support obtained in completing the most recent annual impairment testing at 31 December 2022 and having regard to the level of headroom applicable to each cash generating unit;
- The likelihood key assumptions used to determine recoverable amount of assets as part of impairment testing determined at 31 December 2022 have materially changed, impacting their recoverable amounts at reporting date in comparison to carrying amounts at 30 June 2023 and the composition thereof;
- Independent valuations obtained over property, plant and equipment at 31 December 2022 including having regard to any changes in use and individual business performance of applicable business segments to reporting date;
- Analysis and explanation of the deficiency in net assets to market capitalisation at reporting date supported by control premiums and other valid normalisation adjustments which explain the shortfall; and
- Individual impairment trigger evaluation of each asset class at reporting date.

7. Income Tax

The Group calculates the period income tax benefit using the tax rate that would be applicable to the expected total annual earnings.

The major components of income tax benefit in the interim condensed consolidated statement of profit or loss are:

	Half-year to 30 June 2023 $(000's)	Half-year to 30 June 2022 $(000's)
Current income tax expense	(7,345)	(17,795)
Deferred income tax expense relating to origination and reversal of temporary differences	(1,709)	(13,275)
Adjustments for prior periods	(1,479)	70
Deferred tax not recognised	-	14,278
Tax losses not recognised	7,493	10,142
Income tax (benefit) recognised in the statement of profit or loss	**(3,040)**	**(6,580)**

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

8. Borrowings

	Note	30 June 2023 $(000's)	31 Dec 2022 $(000's)
Secured borrowings			
Washington H. Soul Pattinson and Company Ltd ("WHSP")	(a)	83,261	70,834
Total secured borrowings		**83,261**	**70,834**
Unsecured borrowings		277	1,904
Total borrowings		**83,538**	**72,738**
Current portion		43,806	23,295
Non – current portion		39,732	49,443
Total borrowings, net		**83,538**	**72,738**

a) Secured borrowings – WHSP

As at 30 June 2023, the Group had three secured borrowings with WHSP ("WHSP facilities"):

i. Working Capital Principal Facility of $20.0m with a maturity date of 6 September 2023.
ii. Additional Working Capital Principal Facility of $15.0m with a maturity date of 11 April 2024.
iii. Term Loan Principal Facility of $35.0m with a maturity date of 11 October 2025.

As at 30 June 2023, the current portion of the WHSP Facility loans outstanding was $43.5m (Dec 2022: $21.3m) and non -current portion was $39.7m (Dec 2022: $49.4m).

During the half-year ended 30 June 2023, and in the period up to the date of this announcement, the Group worked with the lender to ensure it did not breach cash inflow or outflow covenants. The Group complied with all other covenant requirements.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

9. Share-based payments

Share Options

On 21 April 2023, 3,340,000 share options were granted to senior executives under a new Long Term Incentive Option Plan. The exercise price of the options in the current year issue is $0.50 which was equal to the market value of the shares at the time the Plan commenced development. The options will vest subject to continued employment and share price hurdles of between $1.20 and $3.00 for a period of 20 trading days any time prior to a testing date. Testing dates are 31 December 2024, 31 December 2025 and 31 December 2026.

The fair value at grant date is estimated using a Monte-Carlo option pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years with an exercise period expiring on 31 December 2028. The fair value of options granted during the half-year ended 30 June 2023 was estimated on the date of grant using the following assumptions:

- Dividend yield 0%
- Expected volatility 65%
- Risk-free interest rate 3.22%
- Expected life of share options 5.69 years

The fair value of the options granted at 21 April 2023 was $0.275.

No share options were issued to Directors.

Share Rights

On 21 April 2023, 2,004,000 share rights were granted to senior executives. Each share right converts to one ordinary share upon vesting. There is no exercise price required to be paid upon the conversion of the share right into an ordinary share.

Share rights vest and convert to ordinary shares upon the successful completion of service periods by the senior executives, staggered between 31 December 2024 and 31 December 2026.

The fair value of the share rights granted during the half-year ended 30 June 2023 was estimated on the date of grant using the following assumptions:

- Dividend yield 0%
- Expected volatility 70%-80%
- Risk-free interest rate 3.07-3.31%
- Expected life of share options 1.69-3.69 years

The fair value of the grant issued on 21 April 2023 was $0.575.

No share rights were issued to Directors.

For the half-year ended 30 June 2023, the Group recognised a total of $0.3m of share-based expense, (comprising $0.27m for the 2023 issues above and $0.03m expense related to the Loan-Funded Share Plan) in the statement of profit or loss (30 June 2022: $0.3m reversal).

895,617 share rights and 2,348,920 share options were allocated to Executives and staff on 14 July 2023.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

10. Contingent Liabilities and Commitments

(a) The Group maintains cash deposits with banks and financial institutions as security for various performance and rental bonds. The detail of such cash deposits is as below:

	Note	30 June 2023 $(000's)	31 Dec 2022 $(000's)
Offset bond for a Defence Systems contract	(c)	15,842	10,741
Performance bond for a Defence Systems contract	(d)	23,906	23,395
Performance bond – EM Solutions contract		223	-
Rental bonds		1,113	1,331
Deposit for credit card guarantee		121	121
Total		**41,205**	**35,588**

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

(c) The Group previously executed an offset agreement in relation to an overseas defence contract for an amount of US$16,957,000 (A$25,576,000) 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$10,504,000 (A$15,842,000) and a fixed and floating charge over the assets of the Group.

(d) The Group maintains a performance bond for US$33,249,000 (A$50,150,000) 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$23,906,000) and a fixed and floating charge over the assets of the Group.

(e) The covenants attached to the Export Finance Australia facility are identical to those specified under the WHSP loan facilities.

(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.

11. Issuance of Securities

30 June 2023

- No securities were issued during this period or the corresponding period.
- No options were exercised during this period or the corresponding period.
- Issued capital as at 30 June 2023 was $432.2m. (30 June 2022: $413.7m).

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

12. Related Party Transactions

During the period, the Group paid a total of $35,000 (six-month period ended 30 June 2022 - $35,000) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors’ fees and superannuation for Mr Geoff Brown.

During the period, the Group paid a total of $35,000 (six-month period ended 30 June 2022 - $35,000) to Technology Innovation Partners Pty Ltd, a company associated with Ms Kate Lundy in respect of directors’ fees and superannuation for Ms Kate Lundy.

During the period, the Group paid a total of $70,000 (six-month period ended 30 June 2022 - $0) to Latour Pty Ltd, a company associated with Mr Garry Hounsell in respect of directors’ fees and superannuation for Mr Garry Hounsell.

Apart from salaries and fees paid to Directors and other key management personnel, there were no other related party transactions.

13. Subsequent Events

New Guarantees

Subsequent to half-year end, and as previously announced on 7 July 2023, the Group executed agreements to provide new guarantees for $22.2m bond to a domestic customer in Australia. The guarantees were issued on the Group’s behalf by funding providers and are secured by initial cash security deposits of $16.6m that the Group has provided to the guarantee issuers. The bonds, guarantees and cash deposits are expected to be returned to EOS during 2023 and 2024 as various obligations are fulfilled.

Delivery to Western European Government Customer

As previously announced on 31 July 2023, during July 2023, the Group delivered 80 RWS to a Western European Government customer, under a contract valued at approximately EUR 32m (approx. $A52m). During July 2023, the Group received the first instalment of the cash proceeds from the Western European Government customer, totalling EUR 27m (A$44m). The remaining cash proceeds (of EUR 5m, approximately A$8m) are expected to be received in H2 2023.

Changes in share rights and options

895,617 share rights and 2,348,920 share options were allocated to Executives and staff on 14 July 2023.

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2023

13. Subsequent Events (continued)

Offset Credit Obligation

EOS is obligated as part of its contract to supply a customer in the Middle East, to contribute to economic development in the country in order to offset against purchases of its products and services ("Offset Program"). This commitment is required to be secured by an offset bond of US$16.9 million (A$25.6 million) which is guaranteed by Export Finance Australia. In respect of the guarantee, an amount of US$10.5 million (A$15.8 million) has been placed on deposit, as disclosed in Note 10 (c).

Under the Offset Program, Offset Credits can be earned by (i) investing in the country; (ii) engaging in contracts that support local industry; or (iii) making other contributions. This is a common requirement for suppliers like EOS. Under the offset program guidelines, participants typically have several years in which to earn Offset Credits. As an alternative to generating Offset Credits through the Offset Program, in certain circumstances Offset Credits can be generated through participation in the Credit Purchase Program.

As part of the Offset Program, EOS is required to develop, agree and submit an approved business plan to the Offset Credit authority within specified time limits. Due to a range of issues, including changes in responsibilities between the relevant country's government agencies and identification by them of a suitable joint venture participant for the business plan proposed by EOS for the Offset Program, there have been delays and the joint venture business plan has not been approved by the government agency within the required time limits. Formal extensions had previously been granted to EOS in the past as a consequence of these delays. EOS has incurred significant expenditure in respect of the program to date. As at 30 June 2023, EOS was in ongoing discussions with counterparties and expected to resolve the delays with a mutually agreed outcome.

Subsequent to period end, during August 2023, the government agency wrote to EOS noting that due to the approved proposal not being finalised, it considered EOS not in compliance with its obligation to submit an approved business plan within the specified time limits. In addition, the government agency invited EOS to voluntarily participate in the Credit Purchase Program, with a maximum cost for EOS of US$35.0 million (A$52.8 million).

The government agency also indicated that, as EOS is not in compliance with its obligation to submit an approved business plan, if it does not participate in the voluntary Credit Purchase Program, it would consider EOS in default and may call upon the Offset Bond Bank Guarantee. If this bank guarantee was drawn upon in full, EOS would forfeit the security deposit of US$10,504,000 (A$15,842,000) and would be expected to pay a further US$6,453,000 (A$9,734,000) to the guarantee provider.

EOS has been in advanced discussions with the government agency during August 2023 to obtain agreement to submit a new business plan for their consideration and approval, and extend the deadline for achieving this to 30 September 2023. On 30 August the government agency granted an extension to the deadline to 30 September 2023 and therefore, as at the date of this report, EOS is not in default. As at the date of signing this report, EOS expects it will reach a mutual agreement on an approved business plan by 30 September 2023, or a mutually agreed extended deadline, and will therefore generate offset credits via economic activity. EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee. No provisions have been recorded for this matter at 30 June 2023.

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

Directors' Declaration

for the half-year ended 30 June 2023

The Directors declare that, in the Directors' opinion:

a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

b) the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:
   i. compliance with accounting standards; and
   ii. giving a true and fair view of the Company and the Group's financial position, as at 30 June 2023 and of the performance for the half-year ended on that date.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of *the Corporations Act 2001.*

On behalf of the Directors

Garry Hounsell
Director and Chair

Canberra, 31 August 2023

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

Conclusion

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 30 June 2023, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2023 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1(b) in the financial report, which indicates that the Group incurred a net loss before tax of $35.5m during the half-year ended 30 June 2023 (June 2022: $33.0m), net cash inflows of $30.7m in operating activities (June 2022: net cash outflows $17.1m) and had an increase in cash held of $20.8m (30 June 2022: net decrease of $43.3m). These conditions, along with other matters outlined in Note 1(b) indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Ernst + Young

Ernst & Young

Ben Tansley

Ben Tansley
Partner
Canberra
31 August 2023

Information on Audit or Review

This half-yearly report is based on accounts to which one of the following applies.

☐	The accounts have been audited.	☒	The accounts have been subject to review.
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

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

Not applicable

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

Not applicable