

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ACN 092 708 364

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2020

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CORPORATE DIRECTORY

Directors

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Mr Ian Dennis
Lt Gen Peter Leahy AC
Air Marshal Geoffrey Brown AO
Ms Kate Lundy
Mr David Black (Appointed 1 January 2021)

Company Secretary

Mr Ian Dennis

Registered Office

Suite 3, Level 12
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Australia

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Email: info@eos-aus.com

Website www.eos-aus.com

Share Registry

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Auditors

Deloitte Touche Tohmatsu
Chartered Accountants
8 Brindabella Circuit
Brindabella Business Park
Canberra Airport ACT 2609
Australia

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS

1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2020

The consolidated entity (“EOS”) reported an operating loss after tax of \$25,207,896 for the twelve month period to 31 December 2020 [31 December 2019: \$17,642,981 profit restated] after allowing for income tax benefit of \$4,693,154 [31 December 2019: \$3,753,604 expense restated]. Revenues from ordinary activities were \$180,182,366 [31 December 2019: \$165,385,019].

The consolidated entity reported net cash used by operations for the twelve-month period totalling \$109,159,317 [31 December 2019: \$33,829,630]. At 31 December 2020, the consolidated entity held cash totalling \$65,933,499 [31 December 2019: \$77,881,766].

The net loss before income tax of \$29,901,050 represents a Loss Before Interest and Tax of \$28,464,575 after adjusting for interest of \$1,436,475 (refer note 2(b)). Foreign exchange losses contributed \$15,682,452 to this result. As further explained below, the loss is largely attributed to delays in product delivery and foreign exchange movements.

The individual sector performances are discussed below.

2. COVID-19 IMPACTS IN 2020

The COVID-19 global pandemic had multiple disruptive impacts on EOS during the year including increasing supply chain costs, reducing supplier responsiveness, product delivery delays, delays in contract negotiation and execution, access to customers and inefficiencies in staff utilisation. Despite these difficulties, EOS was able to maintain production at almost full rate while retaining a clear focus on the health and safety of our employees and their communities. EOS continues to take all practical measures to prevent infection and reduce the operational impact of any new infection, while maintaining positive operating momentum.

The company’s operations in Q1 2020 followed management’s expectations in terms of production output, factory yield, cash flow and profitability. However, the COVID-19 pandemic caused significant changes to the Company’s plans for the rest of 2020 and for 2021. As a result, on 15 April 2020 EOS raised \$128m (net of costs) in new capital through a fully underwritten institutional placement with \$55m allocated to allow an expansion of inventory to around \$120m until delivery processes could be restored.

In Q4 2020 EOS achieved a key step in restoring cash flow from its export programs. A team of senior engineers from Australia travelled overseas to re-initiate delivery and testing for over \$120m worth of completed EOS products. As required under the contract, EOS reconfirmed the R400 Dual Remote Weapon Systems (“RWS”) performance during both the day and night, at ranges out to and beyond 2km, from both stationary and moving vehicles. This again confirmed our market-leading performance in range and precision for any stabilised weapon platform utilising a 30x113mm cannon under formal testing standards.

The resumption of the Company’s delivery processes with deliveries occurring at an accelerating rate throughout Q4 2020 had implied a 2020 EBIT in the range \$20-30m. However, further COVID-19 delays were experienced from December relating to international air freight bottlenecks, customer testing resources, equipment upgrades and a fall in import documentation capacity with some customers. In addition, the appreciation of the Australian dollar from 72 cents to 77 cents created a further impact both on underlying and Statutory EBIT. This required the Company to withdraw its full year profit guidance.

3. EOS DEFENCE SYSTEMS

The full year sector revenue of \$156m represents a reduction of 1% over the corresponding prior period, due to the impact of the COVID-19 virus deferring revenue into 2021.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

The sector loss before income tax of \$24.82m compares to an EBIT of \$21.61m in the corresponding prior period. This loss was principally due to delayed revenue as production volumes continued at planned levels to build inventory for the foreign customer and adverse foreign exchange movements.

The sales pipeline for EOS Defence Systems is strong at \$3.4bn on a risk-weighted basis (unrisked \$13.0bn), with major awards due in 2021 and 2022.

International Logistics and Cash Flow

The delivery disruptions caused by COVID-19 are now largely resolved. In particular, delivery issues with a key export customer are expected to be resolved and over \$120m of goods and services have been delivered to the final stage of customer acceptance. By 31 December 2020 the customer had issued formal certificates of acceptance for 25% of those items.

These developments align with management expectations, previously announced, that around \$120m of inventory are expected to convert to cash in Q2 2021.

Commonwealth RWS Contract

In September 2020 EOS contracted with the Commonwealth of Australia for the delivery of 251 Remote Weapon Systems and related materiel. EOS made initial deliveries in 2020 with the bulk of the order to be delivered in 2021.

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

Counter-UAS developments

EOS has invested significant resources to develop a complete range of capabilities for the defeat of drones. Over the past three years a substantial test and demonstration program based in Australia, USA and the Middle East has established EOS as the only provider with the entire suite of capabilities required to defeat sophisticated drone attacks. These demonstrations include new technology, available only from EOS, for directed energy (laser) systems to defeat drone attacks.

In Q2 2020 EOS was selected as the preferred provider of CUAS capability for a large program for critical infrastructure protection. After significant COVID-19 delays, competitor protests against this award will be resolved in Q3 2021 by means of product capability demonstrations. EOS is very experienced in this process and, based on exemplary product performance in all recent trials, is confident of securing the full award by Q4 2021.

Other awards for CUAS capability, especially including directed energy defences, are emerging.

Consequently, EOS has moved its directed energy [DE] drone kill system to production, in anticipation of customer demand for this unique capability. This product places EOS even further to the forefront of the CUAS market globally.

Prime Contractor for C4 EDGE Program

In December 2020 EOS was awarded a \$34.4m contract by the Commonwealth of Australia for the C4 EDGE program, with EOS Defence Systems as the Prime Contractor for an all-Australian industry consortium to demonstrate a sovereign Battlegroup and Below Battlefield Command System. This commitment by the Government and the Australian Army will support the development of innovative local businesses capable of providing critical, world-leading communications solutions.

A successful C4 EDGE capability will help address the Army's significant future requirements for sovereign communications systems. The Government's 2020 Defence Strategic Update lays out an investment pipeline for battlefield communications and command systems of between \$5.0bn and \$7.5bn over the next 20 years.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

4. EOS SPACE SYSTEMS

The Space Systems team has developed laser technology that enables optical ground-to-space communications with unprecedented efficiency. This technology allows major increases in satellite communications bandwidth, and this capability will be fielded in the near term in EOS' own communications program through SpaceLink.

The sector continues to make strong investments in R&D. Space Systems continues to support other significant internal and collaborative research programs including core technologies in support of the development of high power laser systems for Counter-UAS systems through EOS Defence Systems.

The full year segment profit of \$1m is consistent with management expectations. During this period EOS operated a network of its space sensors to provide space tracking data on an internationally-significant scale. This activity was performed on time and within the allocated budget.

The sales pipeline for EOS Space Systems is \$49m on a risk-weighted basis (\$754m on an unrisks basis) with major awards falling due in 2021 and 2022.

5. EOS COMMUNICATIONS SYSTEMS

EOS Communications Systems reported a loss of \$2.5m, made up of a profit from EM Solutions offset by start-up costs associated with EOS SpaceLink and corporate overheads.

EM Solutions

EM Solutions ("EMS") is a world leader in on-the-move satellite communications and is a major provider of satellite communication systems for the Australian Defence Force, including Royal Australian Navy ships and several NATO naval forces. EMS's on-the-move radio and satellite products deliver high speed telecommunications anywhere in the world to its customers. The EMS terminals are uniquely interoperable with many satellite constellations and are world-leaders in their field. EOS acquired the business in October 2019 as a key component of the EOS Communications Systems division.

EM Solutions is performing strongly. Revenue for 2020 was \$19.5m with profit margins in line with acquisition business plans. EOS now plans to establish capabilities in space communication terminals in Huntsville Alabama, based on the successful products developed by EM Solutions in Brisbane.

The sales pipeline for EM Solutions is strong at \$173m on a risk-weighted basis (un-risked \$502m), with awards due in 2021 and 2022.

EOS SpaceLink

EOS is executing its plan to enter the space communications market, and is now in the process of financing the EOS SpaceLink business. The acquisition of the communications business of EM Solutions [2019] and then the purchase of assets of Audacy and Collinear Corporations [2020] were important foundational steps towards building a constellation of mid-earth orbit ("MEO") satellites to establish a wideband satellite communications capability.

During the first half, the Company acquired all of the business and assets of Audacy Corporation. The acquisition included US government spectrum licenses granted by the US Federal Communications Commission ("FCC") authorizing the use of specific microwave spectrum bands for communications to, from and among specific satellites and ground-based communication terminals. Implementation of the license requires the launch of a constellation of new MEO satellites by June 2024 to comply with the license requirements.

Also, during the year, EOS completed the acquisition of the communication assets, including all the IP and other technology, of Collinear Inc., a US corporation specialising in hybrid radio frequency (RF) and

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

optical communications. The capabilities and assets of Collinear are being integrated with those of Audacy and EOS to form the full-service space communications company, EOS SpaceLink.

EOS has now established the US management team for SpaceLink, with David Bettinger as SpaceLink CEO (previously OneWeb, iDirect, Hughes). Other key personnel include CTO Rob Singh (Maxar), COO Larry Rubin (Loral), CSCO Tony Colucci (Loral, Boeing, Hughes), SVP Systems Engineering David Nemeth (OneWeb, iDirect), and Dr Larry Alder SVP Products & Services (OneWeb, O3B, Google).

Funding for the first SpaceLink constellation is expected to be available without recourse to EOS. The financing plan is well advanced with advisers already appointed to assist with bringing external funding into a US SPV structure. EOS expects to retain a majority share in SpaceLink and to announce a funding arrangement in Q2 2021.

6. OUTLOOK AND FORECAST

Global Tail Winds

Increasing geopolitical tensions and the accelerated application of new defence technologies by both allies and competitors is driving a positive tailwind for all three EOS business sectors. EOS customers are increasing their planned outlays for advanced defence technology with imminent impact. Some examples:

- The announcements of the formation of the US Space Corps and France's Space Force are indicative of the renewed emphasis on space as a critical domain for both commerce and national security.
- Multi-drone attacks globally on high value infrastructure have triggered urgent demand for directed energy defences. Based on international tender activity during 2020, EOS appears currently to have the only functioning product in the global marketplace.
- The Commonwealth of Australia released a "Defence Strategic Update" in July 2020. This lifted Australia's capital spending program for defence equipment to \$270bn over 10 years. The revised program now includes over AU\$12bn of proposed spending for products or services already produced in Australia by EOS. EOS intends to compete strongly for that AU\$12bn spending. The Commonwealth of Australia has recently implemented new procurement rules emphasising the importance of Australian Industry Content and national economic benefit as selection criteria for contract awards.
- EOS is the largest indigenous defence-aerospace company in Australia and intends to step forward as a prime contractor to lead teams of local and international companies to bid for major Commonwealth requirements. This new approach will allow EOS to address a much larger domestic market than the AU\$12bn directly related to EOS' own products and services.

Defence

The 2020 result was disappointing relative to prior management expectations, but unavoidable due to the COVID-19 pandemic. EOS expects a considerably stronger 2021 result based on the resumption of deliveries, the completion of the Commonwealth 251 RWS contract and imminent contract awards.

The order backlog currently stands at \$403m and EOS expects this to convert to revenue by 2023. No customer has reduced or cancelled any contract, despite delivery disruptions.

EOS still plans to upgrade production capacity globally from AU\$450m to AU\$900m per annum by 2024 to meet demand, but those plans now use a modified supply chain with increased resilience.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

REVIEW OF OPERATIONS (cont)

The sales pipeline is strong at \$3.4bn on a risked basis. At normal conversion rates this should materially increase the order backlog as we progress through 2021.

EOS allowed product inventory to grow past \$120m in 2020 as COVID-19 delayed export deliveries and EOS production lines were maintained at COVID-safe but profitable capacity. This process of investment in inventory is now reversing. By 31 December 2020 EOS had obtained written customer acceptance for 25% of this inventory. EOS expects to recover \$120m of cash from inventory by Q2 2021, in line with prior expectations.

Space Systems

EOS Space Sector is currently participating in \$775m of potential procurements globally. Several lead-in contracts are in performance already pending customer budget release processes over the next 12 months.

Communications Systems

The SpaceLink constellation technical specifications and design have been optimised for customer requirements and recent technological advances. The intended customer base is increasingly aware that SpaceLink is critical infrastructure for their future operations. This maturing of both the design and market focus underpins the imminent SpaceLink capital raising.

As previously announced, SpaceLink will be funded through an EOS special purpose vehicle in the USA, and not through the EOS ASX listing. This funding is progressing to plan with an announcement anticipated in Q2 2021. The Company expects this activity to crystallise significant value for EOS shareholders.

Key Points

1. Loss in 2020 was largely due to deferral of revenue which should surface in 2021
2. Global tail winds will inflate pipeline across sectors from 2022
3. Directed energy technology is securing a strong position in the huge counter-drone market
4. Defence contract asset of AU\$138m is expected to convert back to cash in line with expectations
5. SpaceLink maturity now allows a capital raising in the US without recourse to the ASX listed entity.

2021 Guidance

The impacts of COVID-19 on customers, suppliers and EOS itself injected volatility into the timing of EOS signing, performing and delivering contracts. We expect 2021 to be more predictable than 2020, but the impact of COVID-19 is likely to continue causing disruption to global trade. EOS will continue to take all appropriate measures to protect our staff, and this may cause EOS to defer or decline some contracts or contract activity.

Notwithstanding an expectation that COVID-19 issues will continue into 2022, management expects strong revenue growth and a return to normal levels of profitability in 2021. EOS expects to issue specific guidance at the AGM on 28 May 2021.

Ben Greene
Chief Executive Officer

31 March 2021

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT

The directors of Electro Optic Systems Holdings Limited submit herewith the annual financial report of the company for the year ended 31 December 2020. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Name	Particulars
Fred Bart	Chairman (Age 66). He has been Chairman and Director of numerous public and private companies since 1980, specialising in manufacturing, property, technology and marketable securities. He is also Chairman of Audio Pixels Holdings Limited, Noxopharm Limited and a director of Weebit Nano Limited. Appointed to the Board on 8 May 2000 (Length of service – 20 years).
Dr Ben Greene	BE (Hons), Phd in Applied Physics (Age 70) is the Chief Executive Officer of Electro Optic Systems. Dr Greene 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. Dr Greene 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. He was a member of the Nominations and Remuneration Committee until 16 June 2020. Appointed to the Board on 11 April 2002 (Length of service - 18 years).
Ian Dennis	BA, C.A. (Age 63) is a Chartered Accountant with experience as director and secretary in various public listed companies and unlisted technology companies in Australia and overseas. He has been involved in the investment banking industry and stockbroking industry for the past twenty five years. Prior to that, he was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 8 May 2000 (Length of service – 20 years). He is also director and company secretary of Audio Pixels Holdings Limited. He is a member of the Audit and Risk Committee and the Nominations and Remuneration Committee. He is also company secretary of Electro Optic Systems Holdings Limited.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Lt Gen Peter Leahy AC Non-executive director (Age 68). Appointed to the Board on 4 May 2009 (Length of service 11 years). Peter Leahy AC 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 director of Codan Limited and 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 is Chairman of the Audit and Risk Committee and a member of the Nominations and Remuneration Committee. He was Chairman of the Nominations and Remuneration Committee until 6 February 2020.

Air Marshal Geoffrey Brown AO

Non-executive director (Age 62). Appointed to the Board on 21 April 2016 (Length of service – 4 years). Geoffrey Brown retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institute of Engineering Australia and is a Fellow of the Royal Aeronautical Society. He is a Director of Lockheed Martin (Australia) Pty Limited, Chairman of the Sir Richard Williams Foundation and Chairman of the Advisory Board of CAE Asia Pacific. He is Chairman of the Nominations and Remuneration Committee from 6 February 2020 and a member of the Audit and Risk Committee.

The Hon Kate Lundy (HonLittD, GAICD)

Non-Executive director (age 53) Appointed to the Board on 23 March 2018 (Length of service – 3 years). Kate Lundy 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.”

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

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. She is a member of the Audit and Risk Committee and a member of the Nominations and Remuneration Committee.

David Black

BA(Hons), FCA, MBA, GAICD. Non-executive director [Age 50]. Before retiring from the Deloitte Touche Tohmatsu Australia partnership in 2016, David Black 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.

David is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Institute of Chartered Accountants in England and Wales, has a BA(Hons) in Economics, an MBA and is a Graduate of the Australian Institute of Company Directors.

Since his retirement from Deloitte, David has established a growing family business, The Coastal Brewing Company, and he currently sits on two Government sector audit committees serving as the independent member.

Appointed to the board on 1 January 2021 (Length of service - three months)

The above-named directors held office during and since the end of the financial year apart from David Black who was appointed a director on 1 January 2021.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Peter Leahy, Geoffrey Brown, Kate Lundy and David Black are considered independent directors.

Directorships of other listed companies

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

Name	Company	Period of directorship
Fred Bart	Audio Pixels Holdings Limited	5 September 2000 to date
	Weebit Nano Limited	6 March 2018 to date
	Noxopharm Limited	8 May 2020 to date
Ian Dennis	Audio Pixels Holdings Limited	5 September 2000 to date
	Lt Gen Peter Leahy AC	Codan Limited
	Citadel Group Limited	27 June 2014 to 9 December 2020

Principal activities

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

The company is listed on the Australian Securities Exchange and joined the S & P/ ASX 300 at the commencement of trading on 22 June 2020.

Review of operations

A detailed review of operations is included on pages 3 to 7 of this financial report.

Changes to the state of affairs

On 20 April 2020. The Company completed a placement of shares at \$4.75 which was fully underwritten and raised \$127,775,501 net of costs. In conjunction with the institutional placement the Company completed a Share Purchase plan at \$4.40 to existing shareholders which raised \$10,786,437.

On 28 May 2020, the Company completed the purchase of the assets of Audacy Corporation and Collinear Corporation in the USA which form part of the new business called SpaceLink.

Apart from the above, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial period.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Share Issues

On 15 April 2020, the Company announced a fully underwritten placement of 28,269,553 new ordinary shares at \$4.75 to sophisticated and professional investor clients of Citigroup Global Markets Australia Pty Limited raising a total of \$127.8m after costs. These new shares were allotted on 20 April 2020. These funds were used to enhance liquidity and continue to fund ongoing growth.

On 15 April 2020, the Company also announced a Share Placement Plan to all existing shareholders registered on 14 April 2020 at the lower of the same price as the institutional placement of \$4.75 or the price (rounded down to the nearest cent) which was equal to the volume weighted average price (VWAP) of EOS shares traded on the Australian Securities Exchange (ASX) over the 5 trading days up to, and including, the date that the offer closed, to raise a maximum of \$10m. The Share Placement Plan closed on 8 May 2020 raising \$10.8m resulting in the issue of 2,451,463 new ordinary shares on 14 May 2020 at \$4.40 per share. The Directors decided to accept all applications above the \$10m limit.

On 19 May 2020, the Company issued 2,270,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$4.75.

On 29 May 2020, the Company issued 2,500,000 ordinary shares to Directors under the Loan Funded Share Plan at a price of \$4.92 following shareholder approval on 29 May 2020.

On 10 August 2020, the Company issued 860,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$5.62.

On 14 October 2020, the Company issued 150,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$5.47.

On 15 March 2021, the Company issued 1,185,000 ordinary shares to staff under the Loan Funded Share Plan at a price of \$5.27.

During the year, Directors and staff repaid loans under the Loan Funded Share Plan in respect of 202,500 shares at \$2.99 each amounting to \$605,475.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Subsequent Events

Under the terms of a contract in the Defence sector, the Company has signed an offset agreement with the relevant overseas Government Authority on 12 February 2021 for an amount of US\$16,133,925. The Company has lodged a security deposit as part security for this guarantee. This offset bond is secured by a security deposit of US\$3,226,785 and a fixed and floating charge over the assets of the consolidated entity.

On 15 March 2021, the parent entity issue 1,185,000 ordinary shares under the Loan Funded Share Plan to employees at an issue price of \$5.27 representing the 20 day volume weighted average share price at the time of the offer of the shares. The parent entity also issued 475,000 unlisted options to overseas staff and consultants at an exercise price of \$5.27 which expire on 16 March 2026.

There have been no other 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 affect significantly 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 29 March 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, defence systems and communications 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

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. We are committed to treat all of our employees with respect and we strictly prohibit the use of slavery, forced labour and human trafficking. To prevent the occurrence of forced, compulsory or child labour, we have implemented local labour policies and practices to comply with the Modern Slavery Act. Any person who applies for employment at EOS does so on a voluntary basis and all employees are legally entitled to leave upon reasonable notice without penalty. In accordance with EOS'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 standards of EOS.

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:

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Diversity (cont)

As at 31 December 2020, the Group's gender diversity mix is as follows:

EOS Directors and Staff 2020	Number	Female	Female %	Male	Male %
Board	6	1	16.7	5	83.3
Senior Management (CEO/EVP)	7	-	0.0	7	100.0
Australia	360	74	20.5	286	79.5
Singapore	7	2	28.6	5	71.4
United States	66	17	25.8	49	74.2
United Arab Emirates	42	9	21.4	33	78.6
Germany	1	1	100	-	0.00
Total staff	489	104	21.27	385	78.73

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 the objectives are as follows:

(i) EOS continues to improve the participation of women in the workforce. There has been a significant global increase in female staff of 128% from 45 (2019) to 103 (2020) due to business expansion in Australia, the USA and UAE;

(ii) EOS is committed to reduce the number of harassment complaints reported each year. In 2020 there were no incidents reported across the consolidated entity;

(iii) Flexible working arrangements has been undertaken by 10 staff within the workforce for 2020 in light of the Covid-19 pandemic; and

(iv) There were 27 staff in total accessing the EOS company education and study assistance programs in 2020.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

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 during the year.

On 19 May 2020, the Company issued 635,000 options to overseas based staff at an exercise price of \$4.75 expiring on 19 May 2025.

On 16 November 2020, the Company issued 220,000 options to overseas based staff at an exercise price of \$5.82 expiring on 16 November 2025.

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

There were 1,075,000 unlisted options outstanding at year end as per the table below.

Number of Options	Issue Date	Expiry Date	Exercise Price
220,000	20 June 2018	31 March 2023	\$2.99
635,000	19 May 2020	19 May 2025	\$4.75
<u>220,000</u>	16 November 2020	16 November 2025	\$5.82
<u>1,075,000</u>			

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

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 Loan Funded Share Plan 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Loan Funded Share Plan (cont)

On 10 August 2020, the Company issued 860,000 ordinary shares to staff under the Loan Funded Share Plan 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 Loan Funded Share Plan 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.

During the year, Directors and staff repaid loans under the Loan Funded Share Plan in respect of 202,500 shares at \$2.99 each amounting to \$605,475.

The Company provided an interest free loan to the Directors and Employees to enable them to acquire the shares under the Loan Funded Share Plan. The total amount of the loans outstanding is \$43,618,925.

Loan funds under LFSP are limited recourse in nature, which means that 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.

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).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT

Loan Funded Share Plan (cont)

The ordinary shares issued under the LFSP were issued to an employee share trust on behalf of the following participants as follows:

Directors	20 June 2018 Issue	Sold during 2020	Remaining 20 June 2018	19 May 2020 Issue	29 May 2020 Issue	10 August 2020 Issue	14 October 2020 Issue	Balance of shares outstanding at 31 December 2020
Mr Fred Bart (Chairman)	200,000	-	200,000	-	100,000	-	-	300,000
Dr Ben Greene (CEO)	2,000,000	-	2,000,000	-	2,000,000	-	-	4,000,000
Mr Ian Dennis	200,000	(50,000)	150,000	-	100,000	-	-	250,000
Mr Peter Leahy	200,000	-	200,000	-	100,000	-	-	300,000
Mr Geoffrey Brown	200,000	-	200,000	-	100,000	-	-	300,000
Ms Kate Lundy	200,000	-	200,000	-	100,000	-	-	300,000
Mr David Black	-	-	-	-	-	-	-	-
	<u>3,000,000</u>	<u>(50,000)</u>	<u>2,950,000</u>	<u>-</u>	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>5,450,000</u>
Employees								
Dr Craig Smith	250,000	-	250,000	80,000	-	-	-	330,000
Mr Grant Sanderson	250,000	-	250,000	160,000	-	-	-	410,000
Mr Peter Short	250,000	-	250,000	160,000	-	-	-	410,000
Mr Scott Lamond	250,000	-	250,000	80,000	-	-	-	330,000
Mr Tahir Khan	-	-	-	100,000	-	-	-	100,000
Mr Neil Carter	-	-	-	-	-	500,000	-	500,000
Mr Glen Tindall	-	-	-	-	-	330,000	-	330,000
Other Senior Employees	<u>1,180,000</u>	<u>(152,500)</u>	<u>1,027,500</u>	<u>1,690,000</u>	<u>-</u>	<u>30,000</u>	<u>150,000</u>	<u>2,897,500</u>
Total	<u>5,180,000</u>	<u>(202,500)</u>	<u>4,977,500</u>	<u>2,270,000</u>	<u>2,500,000</u>	<u>860,000</u>	<u>150,000</u>	<u>10,757,500</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT

Loan Funded Share Plan (cont)

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.

To the extent Shares vest, they will be subject to sale restrictions as outlined in the tables below for each issue of Loan Funded Shares.

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 issued)

Measures and hurdles	Vested Shares can be sold after:
(i) EBIT of \$5m for 12 months ending 31 December 2018; <u>and</u> (ii) 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)	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 issued)

Measures and hurdles	Vested Shares can be sold after:
(i) EBIT of \$15m for 12 months ending 31 December 2019; <u>and</u> (ii) 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)	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)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Loan Funded Share Plan (cont)

Issue of shares during the year ended 31 December 2020

On 19 May 2020, the consolidated entity issued 2,270,000 ordinary restricted shares to employees at an issue price of \$4.75 under the Loan Funded Share Plan.

On 29 May 2020, following approval at the Annual General Meeting, the consolidated entity issued 2,500,000 ordinary restricted shares to directors at an issue price of \$4.92 under the Loan Funded Share Plan.

On 10 August 2020, the consolidated entity issued 860,000 ordinary restricted shares to employees at an issue price of \$5.62 under the Loan Funded Share Plan.

On 14 October 2020, the consolidated entity issued 150,000 ordinary restricted shares to employees at an issue price of \$5.47 under the Loan Funded Share Plan.

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 2 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 4 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)

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, Directors 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).

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 EOS. These conditions as outlined in Note 22 are in addition to the above vesting conditions for Directors.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Indemnification and Insurance of Officers and Auditors

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

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

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 26 Board meetings, four Audit and Risk Committee meetings and six Nominations and Remuneration Committee meetings were held.

Directors	Board of directors		Audit and Risk committee		Nominations and Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	26	25	-	-	-	-
Dr Ben Greene*	26	26	-	-	1	1
Mr Ian Dennis	26	26	4	4	6	6
Lt Gen Peter Leahy AC	26	26	4	4	6	6
Air Marshal Geoff Brown AO	26	26	4	4	6	6
The Hon Kate Lundy	26	26	4	4	6	6
Mr David Black	-	-	-	-	-	-

* Dr Ben Greene resigned from the Nominations and Remuneration Committee on 16 June 2020 when the Company was advised that it would be joining the S&P/ASX 300 Index effective on 22 June 2020.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Directors' shareholdings

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

Directors	Fully paid ordinary shares	Fully paid ordinary shares restricted – Loan Funded Share Plan issued on 20 June 2018	Fully paid ordinary shares restricted – Loan Funded Share Plan issued on 29 May 2020
Mr Fred Bart	5,324,010	200,000	100,000
Dr Ben Greene	3,987,139	2,000,000	2,000,000
Mr Ian Dennis	41,843	150,000	100,000
Lt Gen Peter Leahy AC	50,077	200,000	100,000
Air Marshal Geoffrey Brown AO	13,773	200,000	100,000
The Hon Kate Lundy	5,394	200,000	100,000
Mr David Black	10,880	-	-

Movement in Director shareholdings during the 2020 are set out in the Remuneration Report.

The fully paid ordinary restricted shares were issued on 20 June 2018 under the Loan Funded Share Plan at a price of \$2.99 and are subject to vesting and performance criteria. The fully paid restricted shares were issued on 29 May 2020, following approval at the Annual General Meeting, under the Loan Funded Share Plan at a price of \$4.92 and are subject to vesting and performance criteria.

Remuneration Report (Audited)

The key management personnel of Electro Optic Systems Holdings Limited during the year and to the date of this report were:

Mr Fred Bart (Chairman, Non-executive director)
Dr Ben Greene (Chief Executive Officer and director)
Mr Ian Dennis (Non-executive director)
Lt Gen Peter Leahy AC (Non-executive director)
Air Marshal Geoffrey Brown AO (Non-executive director)
The Hon Kate Lundy (Non-executive director)
Mr David Black (Non-executive director) – Appointed 1 January 2021

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (Audited) cont

Dr Craig Smith (Chief Executive Officer - EOS Space Systems Pty Limited)

Mr Grant Sanderson (Chief Executive Officer - EOS Defence Systems Pty Limited)

Mr Scott Lamond (Chief Financial Officer – Electro Optic Systems Pty Limited) until 28 February 2021*

Mr Peter Short (Chief Operating Officer – Electro Optic Systems Pty Limited)

Mr Neil Carter (Chief Strategy Officer – Electro Optic Systems Pty Limited) - Appointed 13 July 2020

Mr Glen Tindall (Chief Operating Officer – EOS Communications Systems Pty Limited) - Appointed 1 July 2020

Mr Tahir Khan (Acting Chief Financial Officer – Electro Optic Systems Pty Limited) - Appointed 21 August 2020 *

Mr Michael Lock (Chief Financial Officer – Electro Optic Systems Pty Limited) – Appointed 1 March 2021

*Tahir Khan assumed the role of Acting Chief Financial Officer for the period from 21 August 2020 to 28 February 2021. During this period Scott Lamond maintained authority and responsibility for planning, directing and controlling activities of the entity.

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 broad remuneration policy is to ensure the remuneration package properly reflects the persons duties and responsibilities.

Remuneration structure

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

Non-Executive Director remuneration

Objective

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

Structure

The Company's Constitution and the Australian Securities Exchange Listing Rules specify the aggregate remuneration of Non- Executive Directors shall be determined from time to time by a General Meeting of shareholders. An amount not exceeding the amount determined is then

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

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

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

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 and so as to:

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

Structure

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

Employment contracts

There are no employment contracts in place with any Non-Executive Director of the 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 has a 180 day notice period under his employment contract and the other senior management have 90 day notice periods under their employment contracts.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Director remuneration

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

2020	Short term		Post Employment	Equity		Other Long Term Benefits \$	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Loan Funded Share Plan \$	Options		\$
Mr Fred Bart	127,854	-	12,146	31,510	-	-	171,510
Dr Ben Greene*	746,193	26,163	28,827	477,261	-	67,401	1,345,845
Mr Ian Dennis#	279,927	-	6,073	31,510	-	-	317,510
Lt Gen Peter Leahy AC	63,927	-	6,073	31,510	-	-	101,510
Air Marshal Geoffrey Brown AO	63,927	-	6,073	31,510	-	-	101,510
The Hon Kate Lundy	63,927	-	6,073	31,510	-	-	101,510
Mr David Black	-	-	-	-	-	-	-
	<u>1,345,755</u>	<u>26,163</u>	<u>65,265</u>	<u>634,811</u>	<u>-</u>	<u>67,401</u>	<u>2,139,395</u>

* Executive Director during the financial year

Includes fees for company secretarial and accounting consultancy services provided of \$216,000 (2019: \$141,073)

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

2019	Short term		Post Employment	Equity		Other Long Term Benefits \$	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Loan Funded Share Plan \$	Options		\$
Mr Fred Bart	70,150	-	6,664	18,698	-	-	95,512
Dr Ben Greene*	498,257	26,163	45,250	186,982	-	952,137	1,708,789
Mr Ian Dennis#	184,196	-	4,097	18,698	-	-	206,991
Lt Gen Peter Leahy AC	43,125	-	4,097	18,698	-	-	65,920
Air Marshal Geoffrey Brown AO	43,125	-	4,097	18,698	-	-	65,920
The Hon Kate Lundy	<u>43,125</u>	<u>-</u>	<u>4,097</u>	<u>18,698</u>	<u>-</u>	<u>-</u>	<u>65,920</u>
	<u>881,978</u>	<u>26,163</u>	<u>68,302</u>	<u>280,472</u>	<u>-</u>	<u>952,137</u>	<u>2,209,052</u>

* Executive Director during the financial year

Includes fees for company secretarial and accounting consultancy services provided of \$141,073 (2018: \$120,000)

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Executive remuneration

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

2020	Short term		Post Employment	Equity		Other Long Term Benefits \$	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Loan Funded Share Plan \$	Options \$		\$
Dr Craig Smith	358,197	-	34,029	25,921	-	23,639	441,786
Mr Scott Lamond	358,197	-	34,029	26,383	-	10,041	428,650
Mr Grant Sanderson	358,197	-	34,029	33,647	-	20,798	446,671
Mr Peter Short	358,197	-	34,029	33,647	-	16,662	442,535
Mr Neil Carter	215,577	-	20,480	43,028	-	4,238	283,323
Mr Glen Tindall	168,269	-	15,986	30,869	-	12,181	227,305
Mr Tahir Khan	<u>130,003</u>	-	<u>12,350</u>	<u>10,580</u>	-	<u>22,671</u>	<u>175,604</u>
	<u>1,946,637</u>	-	<u>184,932</u>	<u>204,075</u>	-	<u>110,230</u>	<u>2,445,874</u>

2019	Short term		Post Employment	Equity		Other Long Term Benefits \$	Total
	Salary & Fees \$	Non-monetary \$	Super-annuation \$	Loan Funded Share Plan \$	Options \$		\$
Dr Craig Smith	240,742	-	26,287	22,244	-	191,001	480,274
Mr Scott Lamond	242,969	-	23,167	23,373	-	108,967	398,476
Mr Grant Sanderson	242,969	-	23,167	23,091	-	8,332	297,559
Mr Peter Short	<u>243,862</u>	-	<u>23,167</u>	<u>23,373</u>	-	<u>52,243</u>	<u>342,645</u>
	<u>970,542</u>	-	<u>95,788</u>	<u>92,081</u>	-	<u>360,543</u>	<u>1,518,954</u>

No options were granted to, or exercised by any director or executive during 2020 and 2019. Ordinary shares in relation to the Loan Funded Share Plan were granted during 2020 as outlined earlier in the Directors' Report. During the year ended 31 December 2020, a total of 202,500 ordinary shares were sold under the Loan Funded Share Plan as they became vested and loans of \$605,475 were repaid. Ian Dennis, a director sold 50,000 of these ordinary shares and repaid a loan of \$149,500.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

During the 2016 financial year, 3,000,000 options were granted to Directors on 5 February 2016 and 200,000 options on 30 May 2016 at an exercise price of \$3.00 with an expiry date of 31 January 2019. All these options lapsed on 31 January 2019 unexercised.

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

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

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).

	Balance at 1/1/20	Granted as remuneration	Sales of shares	Net other change	Balance at 31/12/20
	No.	No.	No.	No.	No.
Mr Fred Bart	5,324,010	-	-	-	5,324,010
Dr Ben Greene	3,973,503	-	-	13,636	3,987,139
Mr Ian Dennis	94,684	-	(59,659)	6,818	41,843
Lt Gen Peter Leahy AC Air Marshal Geoffrey Brown AO	43,259	-	-	6,818	50,077
The Hon Kate Lundy	11,501	-	-	2,272	13,773
Mr David Black	4,826	-	-	568	5,394
Dr Craig Smith	-	-	-	-	-
Mr Scott Lamond	93,954	-	-	-	93,954
Mr Grant Sanderson	13,252	-	-	858	14,110
Mr Peter Short	-	-	-	-	-
Mr Neil Carter	-	-	-	20,000	20,000
Mr Glen Tindall	-	-	-	21,700	21,700
Mr Tahir Khan	-	-	-	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

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

	Balance at 1/1/20 No.	Granted as remuneration No.	Sale of shares No.	Net other change No.	Balance at 31/12/20 No.
Mr Fred Bart	200,000	100,000	-	-	300,000
Dr Ben Greene	2,000,000	2,000,000	-	-	4,000,000
Mr Ian Dennis	200,000	100,000	(50,000)	-	250,000
Lt Gen Peter Leahy AC Air Marshal Geoffrey Brown AO	200,000	100,000	-	-	300,000
The Hon Kate Lundy	200,000	100,000	-	-	300,000
Dr Craig Smith	250,000	80,000	-	-	330,000
Mr Scott Lamond	250,000	80,000	-	-	330,000
Mr Grant Sanderson	250,000	160,000	-	-	410,000
Mr Peter Short	250,000	160,000	-	-	410,000
Mr Neil Carter	-	500,000	-	-	500,000
Mr Glen Tindall	-	330,000	-	-	330,000
Mr Tahir Khan	-	100,000	-	-	100,000

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 Loan Funded Share Plan.

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 Loan Funded Share Plan. These ordinary restricted shares are subject to performance and vesting conditions.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

Other transactions with key management personnel

During the year, the Company paid a total of \$140,000 (2019: \$76,814) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company paid \$70,000 (2019: \$47,222) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Ian Dennis.

During the year, the Company paid \$70,000 (2019: \$47,222) to GCB Stratos Consulting Pty Limited, a company associated with Air Marshal Geoffrey Brown in respect of directors fees and superannuation for Geoff Brown.

During the year, the Company paid \$216,000 (2019: \$141,073) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

During the year, the Company paid \$31,755 (2019: \$30,441) to Audio Pixels Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Remuneration Report (cont)

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

	31 December 2020 \$	31 December 2019 Restated \$	31 December 2018 \$	31 December 2017 \$	31 December 2016 \$
Revenue	180,182,366	165,385,019	87,130,396	23,259,794	25,797,200
Net profit/ (loss) before tax	(29,901,050)	21,396,585	15,081,372	(9,319,930)	(2,918,477)
Net profit/ (loss) after tax	(25,207,896)	17,642,981	15,081,372	(9,319,930)	(886,692)

	31 December 2020 \$	31 December 2019 \$	31 December 2018 \$	31 December 2017 \$	31 December 2016 \$
Share price at start of year	7.42	2.45	2.45	1.73	1.49
Share price at end of year	5.91	7.42	2.45	2.45	1.73
Dividends paid	-	-	-	-	-

Audit and Risk Committee

The Board appointed five non-executive directors to form the committee, with a majority of independent directors and the Chairman being an independent person. The current members of the Committee are Lt Gen Peter Leahy AC (Chairman), Mr Ian Dennis, Air Marshal Geoffrey Brown AO, Ms Kate Lundy and Mr David Black (Appointed 27 January 2021).

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 Operating Officer prepares a risk profile for each monthly Board Meeting including a Board Residual Risk Heat Map to ensure continuous monitoring of risk.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' REPORT (cont)

Nominations and Remuneration Committee

The Board originally appointed four non-executive directors plus the CEO to form the committee, with a majority of independent directors and the Chairman being an independent person. The current members of the Committee are Air Marshal Geoffrey Brown AO (Chairman – appointed 6 February 2020), Lt Gen Peter Leahy AC, Mr Ian Dennis and Ms Kate Lundy. Lt Gen Peter Leahy was Chairman until 6 February 2020. Dr Ben Greene ceased to be a member of the Committee on 16 June 2020 following notification that the Company would form part of the S&P/ASX 300 index from 22 June 2020. The Committee now comprises four non-executive directors.

Non-audit services

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

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are contained in note 9 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 32 of the annual report.

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

On behalf of the Directors



I A Dennis
Director

Dated at Sydney 31 day of March 2021

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

31 March 2021

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 2020, 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

David Salmon

David Salmon
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Electro Optic Systems Holdings Limited (the "Company") and its subsidiaries (the "Consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2020, 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:

- (i) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the 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, which indicates that the Consolidated entity had a loss before tax of \$29,901,050 and net cash outflows from operating activities of \$109,159,317, during the year ended 31 December 2020.

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As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that 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.

Our procedures in relation to going concern included, but were not limited to:

- Challenging the underlying assumptions reflected in management's cash flow forecasts, including the timing of expected cash flows;
- Assessing the historical accuracy of the forecasts prepared by management;
- Inquiring with management and the board as to knowledge of events and conditions that may impact the assessment on the Consolidated entity's ability to pay its debts as and when they fall due; and
- Assessing the adequacy of the disclosures in Note 1(c) to the financial statements.

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
<p>Revenue recognition for significant contracts</p> <p>Electro Optic Systems Holdings (EOSH) has one significant agreement with a customer for the sale of Remote Weapons Systems and related items. Revenues in relation to this agreement account for \$107,813,128 (or approximately 60%) of total Group revenue. During the current financial year, EOSH has entered into further bespoke agreements with new customers.</p> <p>These contracts are complex, span over several years and the accounting implications thereof are of significance to the performance of the entity.</p> <p>There are judgements associated with interpreting key revenue contracts entered into by the 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:</p> <ul style="list-style-type: none"> • 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. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • 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; • Testing key controls within the revenue recognition process in relation to significant contracts; • 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; • Assessing the application of any adjustments in relation to variable elements of revenue recognition, including the application of the late delivery clauses; and • Recalculating contract assets recorded by management. <p>We also assessed the appropriateness of the disclosures in Notes 1(e) and 2(a) to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Recoverability of goodwill and intangible assets</p> <p>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.</p> <p>The determination of the recoverable amount requires management judgement in determining and applying:</p> <ul style="list-style-type: none"> • Cash flow projections; • Expected future growth in the product market; and • Discount rates. <p>Management also apply judgement when determining the elements of goodwill to be allocated to the individual Cash Generating Units (CGUs).</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Enquiring and performing a walkthrough of the process to compute management's cash flow forecasts to identify and test relevant controls; • Assessing the appropriateness of the allocation of goodwill between CGUs; • Challenging management' assessment paper on the underlying inputs and assumptions applied when making key judgements and estimates; • Assessing the status of any new/ongoing contracts based on discussions with management and external research (where available); • Performing an independent sensitivity analysis to determine whether reasonably foreseeable 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 paper 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. <p>We also assessed the appropriateness of the disclosures in Notes 12 and 13 to the financial statements.</p>
<p>Contract Asset recoverability</p> <p>As a result of the timing of revenue recognition for a contract with a customer, EOSH have recognised a contract asset of \$137,897,050 in the statement of financial position. The contract asset represents amounts reflected in revenue on a milestone basis but not billed to the customer.</p> <p>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.</p> <p>The determination of the ECL requires management judgement in considering the customer's creditworthiness. Recent delays in contracts have resulted in an increase in contract assets and a related risk regarding recoverability.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • 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 paper documenting the assessment of the factors impacting the ECL in relation to the contract asset and any required impairment charges; and • Enquiring, obtaining and reviewing documentation in relation to contract delays and renegotiations including the expected recovery of amounts recognised as a contract asset. <p>We also assessed the appropriateness of the disclosures in Note 6 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Capital Work-in-progress additions</p> <p>EOSH as part of its business generation activity, undertakes research and development activities. These include specific projects and associated assets in the defence and space communications segments. AASB 136 Property Plant and Equipment requires that an item of PPE only be recognised if it is probable that future economic benefits associated with the item will flow to the entity.</p> <p>Management judgement is required in:</p> <ul style="list-style-type: none"> • The determination of when a project has reached the development phase; and • The expected revenue to be generated. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Enquiring and performing a walkthrough of the process to assess development costs to capitalise to identify and test relevant controls; • Obtaining and assessing management's paper documenting the assessment of the assets under construction and expected income generation from the assets; and • Reviewing documentation of costs capitalised in the period and assessing if they have been corrected capitalised. <p>We also assessed the appropriateness of the disclosures in Notes 1(r) and 14 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Corporate Directory, Review of Operations, Director's 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.

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 22 to 30 of the Directors' Report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Electro Optic Systems Holdings Limited, for the year ended 31 December 2020, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 31 March 2021

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements 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 27 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



I A Dennis
Director

Dated at Sydney this 31 day of March 2021

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	31 December 2020	31 December 2019 Restated
		\$	\$
Revenue	2(a)	180,182,366	165,385,019
Other income	2(a)	10,085,114	600,544
Changes in inventories of work in progress and finished goods		(38,292,672)	(5,740,505)
Raw materials and consumables used		(77,694,633)	(84,357,111)
Employee benefits expense	2(b)	(53,211,757)	(33,697,340)
Administration expenses		(19,774,924)	(14,133,068)
Amortisation of intangibles		(2,346,628)	(354,299)
Interest expense	2(b)	(1,436,475)	(384,217)
Depreciation and amortisation of property, plant and equipment	2(b)	(3,045,714)	(1,694,948)
Depreciation of right-of-use-assets	2(b)	(4,165,264)	(2,083,154)
Loss on sale of fixed assets		(299,900)	-
Foreign exchange (losses)/ gains	2(b)	(15,682,452)	36,330
Occupancy costs		(1,709,006)	(524,816)
Other expenses		<u>(2,509,105)</u>	<u>(1,655,850)</u>
(Loss)/ Profit before income tax benefit		(29,901,050)	21,396,585
Income tax benefit/ (expense)	4	<u>4,693,154</u>	<u>(3,753,604)</u>
(Loss)/ Profit for the year		<u>(25,207,896)</u>	<u>17,642,981</u>
Attributable to:			
Owners of the Company	24	(24,402,682)	18,019,648
Non-controlling interests		<u>(805,214)</u>	<u>(376,667)</u>
		<u>(25,207,896)</u>	<u>17,642,981</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		<u>(2,106,188)</u>	<u>337,858</u>
Total comprehensive (Loss)/ Profit for the year		<u>(27,314,084)</u>	<u>17,980,839</u>
Attributable to:			
Owners of the Company		(26,508,870)	18,357,506
Non-controlling interests		<u>(805,214)</u>	<u>(376,667)</u>
		<u>(27,314,084)</u>	<u>17,980,839</u>
Profit/ (Loss) per share			
Basic (cents per share)	3	(19.52)	18.98
Diluted (cents per share)	3	(19.52)	18.94

Notes to the financial statements are included on pages 44 to 143.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

		Consolidated	
	Note	December 2020	December 2019 Restated
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	25	65,933,499	77,881,766
Trade and other receivables	5	35,810,801	27,056,202
Contract asset	6	124,532,902	39,736,920
Inventories	7	67,308,339	53,491,173
Other	8	<u>13,135,088</u>	<u>14,590,520</u>
TOTAL CURRENT ASSETS		<u>306,720,629</u>	<u>212,756,581</u>
NON-CURRENT ASSETS			
Trade and other receivables	5	2,063,782	12,055,798
Contract asset	6	13,364,148	4,415,213
Other	8	956,073	7,237,591
Deferred tax asset	4	11,342,664	2,996,812
Security deposits	30	16,671,414	9,021,823
Loan to associate	10	2,391,940	2,632,783
Right of use assets	11	20,142,641	13,961,128
Goodwill	12	14,878,316	14,878,316
Intangible assets	13	19,723,572	17,235,701
Property, plant and equipment	14	<u>29,125,518</u>	<u>8,061,509</u>
TOTAL NON-CURRENT ASSETS		<u>130,660,068</u>	<u>92,496,674</u>
TOTAL ASSETS		<u>437,380,697</u>	<u>305,253,255</u>
CURRENT LIABILITIES			
Trade and other payables	15	52,235,653	36,970,003
Current tax payable		36,736	8,352,728
Lease liabilities	16	3,442,031	2,613,223
Provisions	17	<u>15,099,074</u>	<u>12,882,819</u>
TOTAL CURRENT LIABILITIES		<u>70,813,494</u>	<u>60,818,773</u>
NON-CURRENT LIABILITIES			
Lease liabilities	16	17,665,942	11,386,647
Provisions	17	<u>9,306,752</u>	<u>6,513,467</u>
TOTAL NON-CURRENT LIABILITIES		<u>26,972,694</u>	<u>17,900,114</u>
TOTAL LIABILITIES		<u>97,786,188</u>	<u>78,718,887</u>
NET ASSETS		<u>339,594,509</u>	<u>226,534,368</u>
EQUITY			
Issued capital	20	413,479,003	274,311,590
Reserves	23	8,412,642	9,312,018
Accumulated losses	24	<u>(80,953,486)</u>	<u>(56,550,804)</u>
Equity attributable to owners of the Company		340,938,159	227,072,804
Non-controlling interests		<u>(1,343,650)</u>	<u>(538,436)</u>
TOTAL EQUITY		<u>339,594,509</u>	<u>226,534,368</u>

Notes to the financial statements are included on pages 44 to 143.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Attributable to owners of the parent	Non- controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
2020							
Balance at 1 January 2020	<u>(56,550,804)</u>	<u>274,311,590</u>	<u>(1,061,206)</u>	<u>10,373,224</u>	<u>227,072,804</u>	<u>(538,436)</u>	<u>226,534,368</u>
(Loss)/ Profit for the year	<u>(24,402,682)</u>	-	-	-	<u>(24,402,682)</u>	<u>(805,214)</u>	<u>(25,207,896)</u>
Exchange differences arising on translation of foreign operations	-	-	<u>(2,106,188)</u>	-	<u>(2,106,188)</u>	-	<u>(2,106,188)</u>
Total comprehensive (loss)/ profit for the year	<u>(24,402,682)</u>	-	<u>(2,106,188)</u>	-	<u>(26,508,870)</u>	<u>(805,214)</u>	<u>(27,315,804)</u>
Issue of 28,269,553 new shares at \$4.75 under the institutional placement	-	127,775,501	-	-	127,775,501	-	127,775,501
Issue of 2,451,463 new shares at \$4.40 under the Share Purchase Plan	-	10,786,437	-	-	10,786,437	-	10,786,437
Repayment of loans in respect of 202,500 Loan Funded Share Plan shares at \$2.99 per share	-	605,475	-	-	605,475	-	605,475
Recognition of share based payments	-	-	-	<u>1,206,812</u>	<u>1,206,812</u>	-	<u>1,206,812</u>
Balance at 31 December 2020	<u>(80,953,486)</u>	<u>413,479,003</u>	<u>(3,167,394)</u>	<u>11,580,036</u>	<u>340,938,159</u>	<u>(1,343,650)</u>	<u>339,594,509</u>
2019							
Balance at 1 January 2019 Restated	<u>(74,570,452)</u>	<u>161,784,727</u>	<u>(1,399,064)</u>	<u>9,871,855</u>	<u>95,687,066</u>	<u>(161,769)</u>	<u>95,525,297</u>
Profit for the year	<u>18,019,648</u>	-	-	-	<u>18,019,648</u>	<u>(376,667)</u>	<u>17,642,981</u>
Exchange differences arising on translation of foreign operations	-	-	<u>337,858</u>	-	<u>337,858</u>	-	<u>337,858</u>
Total comprehensive profit for the year	<u>18,019,648</u>	-	<u>337,858</u>	-	<u>18,357,506</u>	<u>(376,667)</u>	<u>17,980,839</u>
Issue of 4,271,357 new ordinary shares at \$7.31 as part consideration for the acquisition of EM Solutions Pty Ltd	-	31,223,620	-	-	31,223,620	-	31,223,620
Issue of 10,144,224 new shares at \$6.66 each under the institutional placement	-	64,261,948	-	-	64,261,948	-	64,261,948
Issue of 2,558,753 new shares at \$6.66 under the Share Purchase Plan	-	17,041,295	-	-	17,041,295	-	17,041,295
Recognition of share based payments	-	-	-	<u>501,369</u>	<u>501,369</u>	-	<u>501,369</u>
Balance at 31 December 2019	<u>(56,550,804)</u>	<u>274,311,590</u>	<u>(1,061,206)</u>	<u>10,373,224</u>	<u>227,072,804</u>	<u>(538,436)</u>	<u>226,534,368</u>

Notes to the financial statements are included on pages 44 to 143

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	31 December 2020 \$	31 December 2019 \$
Cash flows from operating activities			
Receipts from customers		107,617,093	109,149,110
Payments to suppliers and employees		(204,442,935)	(141,283,329)
Income tax paid		(11,968,689)	(1,881,111)
Interest received		671,590	569,917
Interest and other costs of finance paid		<u>(1,036,376)</u>	<u>(384,217)</u>
Net cash (outflows) from operating activities	25(c)	<u>(109,159,317)</u>	<u>(33,829,630)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(24,554,327)	(4,599,841)
Payment to acquire entity		-	(1,253,836)
Payment for intangible assets		(5,166,750)	-
Loan to associate		-	(2,780,265)
Security deposit for performance bond		<u>(7,258,061)</u>	-
Net cash (outflows) from investing activities		<u>(36,979,138)</u>	<u>(8,633,942)</u>
Cash flows from financing activities			
Proceeds from issue of new shares		139,167,413	81,303,243
Repayment of lease liabilities		<u>(3,238,674)</u>	<u>(1,722,923)</u>
Net cash inflows from financing activities		<u>135,928,739</u>	<u>79,580,320</u>
Net (decrease)/ increase in cash and cash equivalents		(10,209,716)	37,116,748
Cash and cash equivalents at the beginning of the financial year		77,881,766	40,538,225
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>(1,738,551)</u>	<u>226,793</u>
Cash and cash equivalents at the end of the financial year	25(a)	<u>65,933,499</u>	<u>77,881,766</u>

Notes to the financial statements are included on pages 44 to 143.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Summary of Accounting Policies

1(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 31 March 2021.

1(b) Basis of preparation

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

1(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 had a loss before tax of \$29,901,050 and net cash outflows from operating activities during the year of \$109,159,317.

COVID-19 has had a negative impact on the timing and delivery of contractual cash flows in relation to contracts held in foreign jurisdictions and has resulted in delays in customer acceptances and hence revenue recognition.

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:

- On site acceptance of product by customers in foreign jurisdictions, the agreement of contract variations and the realisation of the contract asset;
- key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- the continued ability of the consolidated entity to deliver contracts on time, to the required specifications and within budgeted costs; and

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1(c) Going concern (cont)

- the ability to raise funding should the need arise as a result of additional working capital requirements.

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

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

1(d) 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 an accounting period that begins on or after 1 January 2020.

In the current year, the consolidated entity has applied a number of amendments to AASB Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of material
- Conceptual Framework for Financial Reporting and AASB 2019-1 Amendments to Australian Accounting Standards – Reference to Conceptual Framework
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1 (d). New Accounting Standards (cont)

New and revised Australian Accounting Standards and Interpretations on 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
IFRS 17 Insurance contracts	1 January 2023
IFRS 10 and IAS 28 (amendments) Sale or contribution of Assets between and Investor and its Associate or Joint Venture	Not date set
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IFRS 3 – Reference to Conceptual Framework	1 January 2022
Amendments to IAS 16 - Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS Leases, and IAS 41 Agriculture	1 January 2022

The Directors do not expect these new and revised standards issued but not effective to have a material effect on the financial statements.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1(e) Revenue Recognition

The consolidated entity recognises revenue from the following major sources:

- Sale of goods
- Providing services

The consolidated entity recognises revenue from the above two sources both over time and at a point in time depending on the nature and specifications of contracts entered into with its customers.

For the revenue recognised over time refer to note 2(a) which details the basis of revenue recognition for the current year.

For revenue recognised at a point in time, the consolidated entity recognises revenue when control transfers to the customer.

The consolidated entity considers the following requirements in order to assess whether control has passed:

- (a) The consolidated entity has a present right to payment for the asset,
- (b) The customer has legal title to the asset,
- (c) The consolidated entity has transferred physical possession of the asset,
- (d) The customer has the significant risks and rewards of ownership of the asset,
- (e) The customer has accepted the asset.

Interest revenue is recognised using the effective interest rate method.

Sales-related warranties

Sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the consolidated entity will continue to account for these warranties in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current accounting treatment.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1(f)(i) 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), 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 terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in 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 that are 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 cash and cash equivalents and 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. There are two measurement categories into which the consolidated entity classifies its debt instruments:

- **Amortised cost:** 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1(f)(i) Financial assets (cont)

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments

The consolidated entity subsequently measures all equity investments at fair value. Where the consolidated entity management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the consolidated entity's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other expenses in the statement of profit or loss and other comprehensive income as applicable.

Impairment

The consolidated entity or group 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, 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.

1(f)(ii) Financial Liabilities

Interest bearing liabilities

All loans and borrowings are initially recognised at fair value, being the amount received less attributable 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(g) Cash and cash equivalents

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

(h) Employee benefits

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

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

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(i) Foreign currency

Foreign currency transactions

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

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

Foreign operations

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

(j) Goods and services tax

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

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

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(k) Government grants

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

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

(l) Impairment of assets

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

Goodwill 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. Recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(l) Impairment of assets (cont)

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

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

(m) Income tax

Current tax

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

Deferred tax

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(m) Income tax (cont)

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(m) Income tax (cont)

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

There are formal tax funding and tax sharing arrangements within companies within the Australian tax-consolidated entity as at 31 December 2020.

(n) Intangible assets

Research and development costs

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

Intangible assets acquired in a business combination

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

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

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

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

Intangible assets were valued by an independent valuer as part of the Purchase Price Acquisition Valuation as at 11 October 2019.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(o) 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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(p) 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(p) Leased assets (cont)

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 cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Significant accounting policies (cont)

(p) Leased assets (cont)

The consolidated entity did not make any such adjustments during the period.

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 lease term and 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(l) to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss per that accounting policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “other expenses” in the statement of profit or loss.

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(q) 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.

Non-controlling interest in subsidiaries are identified separately from the consolidated entity's equity therein. Those interest of non-controlling shareholders that are present ownership interest entitling these holders 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 interest 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

(r) Property, plant and equipment

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

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

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

Plant and equipment	5 to 15 years
Leasehold improvements	3 to 5 years
Leased assets	3 to 5 years
Office equipment	5 to 15 years
Furniture, fixture and fittings	5 to 15 years
Motor vehicles	3 to 5 years

(s) Provisions

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

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

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(s) Provisions (cont)

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.

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

(t) 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 Loan Funded Share Plan is accounted for as an in substance option and were initially measured using a Monte Carlo simulation model. Directors' reassess the non-market inputs and adjust throughout the life for likely eventuality.

(u) Interests in joint operations

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(u) Interests in joint operations (cont)

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.

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

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

(v) 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 acquire, 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(w) Critical accounting judgements

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

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:

Recoverable amount of goodwill

The directors made a critical judgement in relation to the recoverable amount of goodwill in Note 12 and the allocation of goodwill to the three cash generating units. Judgement is made regarding the discount rate applied as well as the future cash flows of the three cash generating units.

Deferred tax

The directors made a critical judgement in relation to recognising 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. No deferred tax assets have been recognised in the foreign subsidiaries.

Warranty provision

The directors made a critical judgement in relation to the valuation of the provision for warranty costs described in Note 18. The valuation is determined based on the director's best estimate of the expenditure required to settle the consolidated entity's liability under its warranty program.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(w) Critical accounting judgements (cont)

Loan to associate

The directors made a critical judgement in relation to the treatment of the loan to associate. The directors determined that based on the disclosure in Note 10 that treating the advances under the Unsecured Convertible Note deed as a loan in associate was appropriate based on the facts pertaining to the loan.

Contract asset

A critical judgement and estimation uncertainty exists in relation to the recoverability of the contract assets described in Note 6. Of the total contract assets of \$137,897,050, an amount of \$136,214,440 relates to a contract being delivered to a customer in a foreign jurisdiction. As outlined in note 1(aa), EOS has experienced delays in contract finalisation, variation and execution in relation to this contract as a result of COVID-19. These delays, along with the requirement for onsite acceptance of products which has also been delayed as a result of COVID-19 travel restrictions, 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 assessed that no estimated credit losses should be recognised. This judgement is based on the contractual arrangements in place, communications received from the customer, likelihood of the resolution of the above uncertainties, as well as the creditworthiness of the sovereign counterparty. 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.

Judgements in determining revenue recognised in the period

There are complexities and judgements associated with interpreting key revenue contracts entered into by the entity against the requirements of AASB 15. 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, constraints on revenue and clauses with regards to late deliveries, cancellations and warranties (amongst others).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(x) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the consolidated entity, liabilities incurred by the consolidated entity to the former owners of the acquiree and the equity interest issued by the consolidated entity in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 and AASB 119 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the consolidated entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 are measured in accordance with that Standard.

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

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(x) Business combinations (cont)

When the consideration transferred by the consolidated entity in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the consolidated entity's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

(y) 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.

(z) 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 interest in 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.

Furthermore, in applying AASB 9 to long-term interests, the consolidated entity does not take into account adjustments to their carrying amount required by AASB 128 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with AASB 128).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

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

The Coronavirus disease (COVID-19) was declared a world-wide pandemic by the World Health Organisation in March 2020 and has had a significant impact on global economies. In the period since, and to the time of this report the pandemic had multiple impacts on EOS during the year including increasing supply chain costs, reducing supplier responsiveness, product delivery delays, delays in contract finalisation, variation and execution, access to customers and inefficiencies in staff utilisation. This has resulted in delays in revenue recognition and receipts of contractual cash flows.

Despite these difficulties, the consolidated entity was able to maintain production at almost full rate while retaining a clear focus on the health and safety of our employees and their communities. The consolidated entity continues to take all practical measures to prevent infection and reduce the operational impact of any new infection, whilst maintain positive operating momentum.

During the period, the consolidated entity recognised other income of \$5,773,350 related to Jobkeeper and \$905,030 related to other COVID-19 government wage subsidies, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Grants*.

Significant judgement and estimates

While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement by the directors in preparing the financial report in areas such as revenue recognition, impairment assessment on goodwill and intangibles as well as the review of the expected credit losses on receivables and contract assets. Specifically, the directors have reviewed the expected credit losses in relation to the contract asset as at 31 December 2020 of \$137,897,050. The directors have concluded that no expected credit loss should be recognized in 2020 (2019: Nil) on the basis of the creditworthiness of the counterparty, amongst other factors. See Note 1(w) for more details on this judgement. Furthermore, the directors are of the view that the estimates used in preparing this financial report are reasonable.

Given the dynamic and evolving nature of COVID-19 and limited experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the consolidated entity's assets and liabilities may arise in the future that could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1 (ab) Prior period error

During the year ended 31 December 2020 management became aware that they had not been accounting for certain foreign exchange transactions correctly in accordance with Australian Accounting Standards. Certain monetary assets had been inappropriately translated at historic exchange rates instead of using the exchange rate at the reporting date (the spot rate) and vice versa. As a result, the consolidated entity has restated affected comparative financial information in these consolidated financial statements (Adjustment 1).

In assessing and restating the impacted balances in 2018, management became aware that the current and non-current portions of the Other Assets balance were not appropriately classified. In addition, in finalising the financial statements for the year ended 31 December 2020, management became aware that the current and non-current portions of the contract asset had not been correctly classified as at 31 December 2019 (Adjustment 2).

The following tables illustrate the effects of these restatements on the consolidated entity's consolidated financial statements for those line items affected (these revisions have no net impact on the consolidated entity's net cash amounts provided by or used in operating, financing or investing activities for any of the periods previously reported):

Consolidated Statement of Profit and Loss and Other Comprehensive Income	Year ended 31 December 2019		
	As previously reported	Adjustment 1	Restated
	\$	\$	\$
Foreign exchange gains	610,019	(573,689)	36,330
Profit before income tax expense	21,970,274	(573,689)	21,396,585
Income tax expense	(3,911,516)	157,912	(3,753,604)
Profit for the period	18,058,758	(415,777)	17,642,981
Profit for the period attributable to:			
- Owners of the Company	18,435,425	(415,777)	18,019,648
- Non-controlling interests	(376,667)	-	(376,667)
Basic EPS (cents per share)	19.43	(0.45)	18.98
Diluted EPS (cents per share)	19.38	(0.44)	18.94

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

1. Summary of Accounting Policies (cont)

1 (ab) Prior period error (cont)

Consolidated Statement of financial position Balance at 31 December 2019

	As previously reported	Adjustment 1	Adjustment 2	Restated
	\$	\$	\$	\$
Other Assets – Current	14,737,600	(147,080)	-	14,590,520
Contract Asset	44,772,583	(620,450)	(4,415,213)	39,736,920
Total current assets	217,939,324	(767,530)	(4,415,213)	212,756,581
Other Assets – Non-Current	7,800,037	(562,446)	-	7,237,591
Contract Asset	-	-	4,415,213	4,415,213
Deferred tax assets	2,838,900	157,912	-	2,996,812
Total non-current assets	88,485,995	(404,534)	4,415,213	92,496,674
Net assets	227,706,432	(1,172,064)	-	226,534,368
Accumulated losses	(55,378,740)	(1,172,064)	-	(56,550,804)

Balance at 31 December 2018

	As previously reported	Adjustment 1	Adjustment 2	Restated
	\$	\$	\$	\$
Other Assets – Current	12,713,727	(200,914)	(4,003,930)	8,509,603
Total current assets	106,537,197	(200,914)	(4,003,930)	102,333,073
Other Assets – Non-Current	2,252,177	(556,093)	4,003,930	5,700,014
Total non-current assets	22,331,945	(556,093)	4,003,930	25,779,782
Net assets	96,281,584	(756,287)	-	95,525,297
Accumulated losses	(73,814,165)	(756,287)	-	(74,570,452)

1 (ac) Comparative information

Certain comparative amounts have been restated to apply with the method of computation in the current year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$

2. (Loss)/ Profit from operations

(a) Revenue

Revenue from operations consisted of the following items:

Revenue from the sale of goods	157,671,132	159,170,211
Revenue from the rendering of services	<u>22,511,234</u>	<u>6,214,808</u>
Total revenue	<u>180,182,366</u>	<u>165,385,019</u>

Disaggregation of Revenue

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

Timing of revenue recognition

Over time

	Revenue	Revenue
	\$	\$
Defence segment – Sale of goods	120,292,034	135,025,200
Defence segment – Providing of services	15,061,354	-
Communication segment – Sale of goods	15,125,671	1,265,438
Communication segment – Providing services	<u>1,094,170</u>	<u>113,984</u>
Total Revenue recognised over time	<u>151,573,229</u>	<u>136,404,622</u>

The consolidated entity recognises revenue for the overseas remote weapon system contract over time as the goods manufactured under this contract do not have an alternative use for the entity, and EOS has an enforceable right to payment for performance completed to date under the contract. AASB 15 takes a controls-based approach to revenue recognition, where the transfer of a good or service happens as the customer obtains control of that good or a milestone is met.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

Consolidated	
31 December 2020 \$	31 December 2019 \$

2. (Loss)/ Profit from operations (cont)

Under the consolidated entity's current primary contract, the control of the goods transfers when the goods are delivered or a milestone is met. The output method, based on the delivery of goods to customer or the achievement of contract milestones faithfully depicts our performance under the contract and best depicts the pattern of transfer of goods to the customer. Revenue in relation to a contract earned on a milestone basis has been adjusted for variable elements. During the 2020 year, there was a cumulative catch-up adjustment to Revenue and contract assets arising from a change in the assessment of whether variable revenue was constrained.

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

All other revenue is recognised at a point in time.

At a point in time

	Revenue	Revenue
Communications segment – Sale of goods	2,830,490	488,201
Communications segment – Providing services	480,640	23,805
Defence segment – Sale of goods	19,422,937	22,335,015
Defence segment – Providing services	1,570,973	1,114,122
Space segment – Providing services	4,304,097	5,019,254
Total Revenue recognised at a point in time	<u>28,609,137</u>	<u>28,980,397</u>
 Total Revenue	 <u>180,182,366</u>	 <u>165,385,019</u>
 Other income		
Interest:		
Bank deposits	557,375	569,917
Other	114,215	-
Jobkeeper	5,773,350	-
Grant income	3,314,081	-
Other	<u>326,093</u>	<u>30,627</u>
	<u>10,085,114</u>	<u>600,544</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	31 December 2020	31 December 2019 Restated
	\$	\$
2. (Loss)/ Profit from operations (cont)		
(b) (Loss)/ Profit before income tax has been arrived at after charging the following expenses:		
Borrowing costs		
Interest paid	400,099	-
Interest expense on right of use assets	<u>1,036,376</u>	<u>384,217</u>
	<u>1,436,475</u>	<u>384,217</u>
Amortisation of intangibles	<u>2,346,628</u>	<u>354,299</u>
Depreciation– property, plant and equipment	3,045,714	1,694,948
Depreciation on right of use assets	4,165,264	2,083,154
Foreign exchange losses/ (gains)	<u>15,682,452</u>	<u>(36,330)</u>
Employee benefit expense:		
Share based payments:		
Equity settled	1,206,812	501,369
Contributions to defined contribution superannuation plans	3,573,509	2,160,445
Other employee benefits	<u>48,431,436</u>	<u>31,035,526</u>
	<u>53,211,757</u>	<u>33,697,340</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	31 December 2020	31 December 2019 Restated
	\$	\$
3. Earnings per Share		
Basic EPS	<u>(19.52 cents)</u>	<u>18.98 cents</u>
Diluted EPS	<u>(19.52 cents)</u>	<u>18.94 cents</u>
Basic (Loss)/ Profit per Share		
(Loss)/ Profit (a)	<u>(25,207,896)</u>	<u>17,642,981</u>
Weighted average number of ordinary shares used in the calculation of basic earnings per share (b), (c), (d), (e)	<u>129,164,714</u>	<u>92,942,896</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (b), (c), (d), (e)	<u>129,164,714</u>	<u>93,162,896</u>

(a) (Loss)/ Profit used in the calculation of basic earnings per share is the same as net (loss) profit in the profit and loss.

(b) The 1,075,000 unlisted options outstanding are in the money at 31 December 2020 and are not considered dilutive as all the conditions of exercise have not been met at the reporting date and given the consolidated entity made a loss in the year.

(c) In the prior year there are potential ordinary shares and hence diluted earnings per share was different to basic earnings per share as the 220,000 unlisted options exercisable at \$2.99 were in the money at 31 December 2019 and were considered dilutive.

(d) The 5,180,000 ordinary shares issued on 20 June 2018 at a price of \$2.99 each under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in substance options for accounting purposes. The Loan Funded Share Plan shares are not considered dilutive as the consolidated entity made a loss for the year. The shares were not considered dilutive in 2019 as all the performance conditions had not been met by 31 December 2019 and none of the shares had vested.

(e) 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 and the 150,000 ordinary shares issued on 14 October 2020 at \$5.47 each under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in substance options for accounting purposes. The options are not considered dilutive given the consolidated entity made a loss for the year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31 December 2020	31 December 2019 Restated
	\$	\$
4. Income Tax		
Corporation income tax		
Current year (benefit)/ expense	<u>(4,693,154)</u>	<u>3,753,604</u>
 (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:		
(Loss)/ Profit from operations	<u>(29,901,050)</u>	<u>21,396,585</u>
Income tax (benefit)/ expense calculated at 30%	(8,970,315)	6,418,976
Effect of different tax rates of subsidiaries operating in other jurisdictions	452,919	203,428
Tax fair value adjustments on acquisition	-	339,726
Tax rate difference of subsidiary acquired	-	(101,064)
Share based payments	362,044	150,411
Amortisation of intangible assets in other jurisdictions	225,028	-
Other non-deductible/ non assessable items	<u>(452,101)</u>	<u>(328,209)</u>
	(8,382,425)	6,683,268
Deferred tax assets now brought to account	-	(4,233,732)
Adjustment in respect of prior years	(290,547)	38,184
Unused Australian tax losses and tax offsets now brought to account	(1,899,306)	(1,770,284)
Unused tax losses and tax offsets not recognised as deferred tax assets	<u>5,879,124</u>	<u>3,035,628</u>
Income tax (benefit)/expense attributable to Operating (Loss)/ Profit	<u>(4,693,154)</u>	<u>3,753,604</u>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law, 25% in Germany, 17% in Singapore, 0% in United Arab Emirates and the federal tax rate applicable in the USA and the State of Arizona has been assumed to approximate a combined rate 40% as their tax rates apply on a sliding scale. There has been no change in the corporate tax rate when compared with the previous reporting period.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

Consolidated
31 December 2020
31 December 2019
\$ \$

4. Income Tax (cont)

(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 current 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.

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

Deferred tax assets	2019 Restated	Charge/ (credit) to profit and loss	Recognised in other Comprehens ive income	2020
Accruals	512,970	(71,975)	-	440,995
Section 40-880 deduction	1,264,822	(756,806)	1,951,463	2,459,479
Provision for annual leave	1,420,466	447,868	-	1,868,334
Provision for long service leave	1,022,273	169,791	-	1,192,064
Provision for estimated credit losses	40,282	(2,514)	-	37,768
Provision for decommissioning costs	75,000	-	-	75,000
Provision for obsolete stock	6,186	23,020	-	29,206
Provision for make good costs	102,067	48,971	-	151,038
Provision for warranty	2,703,992	973,955	-	3,677,947
Contract asset	-	85,765	-	85,765
Income tax losses	<u>233,537</u>	<u>(189,155)</u>	-	<u>44,382</u>
	7,381,595	728,920	1,951,463	10,061,978
Deferred tax liabilities				
Foreign exchange gain arising from tax fair value adjustment	106,473	5,976,791	-	6,083,264
Prepaid insurance	(183,353)	65,672	-	(117,681)
Right of use assets	(11,760)	277,977	-	266,217
Property plant and equipment	-	(1,073,531)	-	(1,073,531)
Provision for deferred tax liabilities on acquired intangible assets	<u>(4,296,143)</u>	<u>418,560</u>	-	<u>(3,877,583)</u>
Total	<u>2,996,812</u>	<u>6,394,389</u>	<u>1,951,463</u>	<u>11,342,664</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

		Consolidated		
		31		31
		December	December	
		2020	2019	
		\$	\$	
4. Income Tax (cont)				
(b) Deferred tax balances				
Deferred tax assets	2018	Charge/ (credit) to profit and loss	Acquisition of subsidiary	2019 Restated
Accruals	-	83,926	429,044	512,970
Section 40-880 deduction	-	1,199,328	65,494	1,264,822
Provision for annual leave	-	1,298,488	121,978	1,420,466
Provision for long service leave	-	894,210	128,063	1,022,273
Provision for estimated credit losses	-	40,282	-	40,282
Provision for decommissioning costs	-	75,000	-	75,000
Provision for obsolete stock	-	-	6,186	6,186
Provision for make good costs	-	89,087	12,980	102,067
Provision for warranty	-	2,679,651	24,341	2,703,992
Other	-	10,909	(10,909)	-
Income tax losses	-	<u>(100,983)</u>	<u>334,520</u>	<u>233,537</u>
	-	<u>6,269,898</u>	<u>1,111,697</u>	<u>7,381,595</u>
Deferred tax liabilities				
Foreign exchange gain arising from tax fair value adjustment	-	106,473	-	106,473
Prepaid insurance	-	(183,353)	-	(183,353)
Right of use assets	-	(11,760)	-	(11,760)
Provision for deferred tax liabilities on acquired intangible assets	-	<u>93,085</u>	<u>(4,389,228)</u>	<u>(4,296,143)</u>
Total	-	<u>6,274,343</u>	<u>(3,277,531)</u>	<u>2,996,812</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$

4. Income Tax (Cont)

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

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

Tax losses – revenue	29,314,979	23,129,161
Temporary differences	<u>158,053</u>	<u>322,854</u>
	<u>29,473,032</u>	<u>23,452,015</u>

(d) Franking account balance

Adjusted franking account balance	<u>14,503,704</u>	<u>1,881,111</u>
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Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Electro Optic Systems Holdings Limited. The members of the tax-consolidated entity group are identified in Note 27.

Nature of tax funding arrangements and tax sharing agreements

As at 31 December 2020, there were formal tax funding and tax sharing arrangements within the Australian tax-consolidated or group.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
5. Trade and other receivables		
Current		
Trade receivables	34,343,138	25,688,863
GST receivable	702,664	1,022,437
Employee receivables	764,999	166,434
Other debtors	-	<u>178,468</u>
	<u>35,810,801</u>	<u>27,056,202</u>
Non-current		
Trade receivables	<u>2,063,782</u>	<u>12,055,798</u>

The average credit period on sales of goods is 45 days. No interest is charged on outstanding late receivables.

The consolidated entity always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment to both the current as well as the forecasted direction of conditions at the reporting date. The consolidated entity has not recognised any loss allowance.

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. None of the trade receivables that have been written off is subject to enforcement activities.

Ageing of past due not impaired

0-30 days	2,931,961	95,967
31-60 days	17,719	275,617
61-90 days	687,919	420,324
91-120 days	19,170	-
120 days +	<u>16,189</u>	<u>-</u>
	<u>3,672,958</u>	<u>791,908</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated 31 December 2020 \$	31 December 2019 Restated \$
6. Contract asset		
Unbilled revenue - current	124,532,902	39,736,920
Unbilled revenue – non current	<u>13,364,148</u>	<u>4,415,213</u>
	<u>137,897,050</u>	<u>44,152,133</u>

Being amounts reflected in revenue on a milestone basis but not billed to the customer in the defence and communications segments.

The consolidated entity always measures the loss allowance for unbilled revenue at an amount equal to lifetime ECL. The expected credit losses on unbilled revenue are estimated using a provision matrix by reference to past known default experience of the customer, being a government, and an analysis of the customer's current financial position, adjusted for factors that are specific to the customer, general economic conditions of the industry in which the customers operate and an assessment to both the current as well as the forecasted direction of conditions at the reporting date. The consolidated entity has not recognised any loss allowance as the customer is a government customer secured by a letter of credit.

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

7. Inventories

Raw materials – at net realisable value	17,166,527	41,642,033
Work in progress – at cost	49,345,296	11,849,140
Finished goods – at cost	<u>796,516</u>	<u>-</u>
	<u>67,308,339</u>	<u>53,491,173</u>

8. Other Assets

Current	<u>13,135,088</u>	<u>14,490,520</u>
Non-current	<u>956,073</u>	<u>7,237,591</u>

These prepayments relate to prepayments made to suppliers for the delivery of component parts in relation to current orders.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31 December 2020	31 December 2019
	\$	\$
9. Remuneration of Auditors		
(a) Deloitte and related network firms*		
Audit or review of the financial reports		
- Group	<u>426,799</u>	<u>247,800</u>
Other services		
- Tax consulting services	<u>21,000</u>	<u>8,925</u>
	<u>447,799</u>	<u>256,725</u>
(b) Other Auditor and their related network firms		
Audit or review of the financial reports	<u>15,279</u>	<u>12,568</u>
Other services		
-Taxation services	<u>4,228</u>	<u>1,266</u>
	<u>19,507</u>	<u>13,834</u>

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

10. Loan to associate

Unsecured convertible note to associate - AEI Air (Holdings) Limited	<u>2,391,940</u>	<u>2,632,783</u>
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On 23 April 2019 the consolidated entity entered into an Unsecured Convertible Note deed with a supplier AEI Air (Holdings) Limited ("supplier"). The terms of the deed require the supplier to issue to the consolidated entity up to five convertible notes, subject to certain conditions, of which \$2,780,265 has been paid, representing only four convertible notes. All five notes were convertible, in aggregate, into such number of shares which represents 51% of the issued share capital of the supplier at the date of conversion. Following payment of the first note the consolidated entity appointed two out of five directors of the supplier and had the 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). 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 date of issue of the first note above – 23 April 2019), and on redemption the supplier must repay the face value of the notes to the consolidated entity.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

10. Loan to associate (cont)

On 23 April 2019 the consolidated entity also entered into a Put and Call Option deed with the shareholders of the supplier. This deed allows the consolidated entity to call the remaining 49% of the shareholding in the supplier at an aggregate exercise price based on an adjusted Net Profit after Tax (NPAT) multiple. The shareholders also have a put option over the same interest. Further, under this agreement, should certain conditions be met, the shareholders are able to request the draw down of loan advances to a maximum of GBP1,714,500, payable to the shareholders in four equal tranches. As at the date of this report the vendors have elected not to make any draw down of the loans under the agreement. Should the loans be 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 can be exercised by the consolidated entity (or the shareholders) at any time up to and including 30 June 2022 but are conditional on the exercise of the Unsecured Convertible Notes as referred to above. The put and call option liability (in relation to the option) is carried at fair value through profit and loss.

Following initial assessment of these arrangements, a subsequent event was disclosed in the half-year report outlining that the consolidated entity controlled the supplier from the date of the payment of the second note. Subsequent to the issuance of the 2019 half-year report the directors sought legal advice in relation to the arrangements. As a result, in the second half of 2019 the directors reassessed these arrangements and considered that the conclusion that the consolidated entity controlled the supplier from the date of the second note (as disclosed as a subsequent event in the half-year report) was not appropriate, and that the nature of the arrangement with the supplier should be disclosed as an associate as the nature of the consolidated entity's interest is 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 the supplier should the consolidated entity exercise its Unsecured Convertible Note to acquire 51% of the supplier, 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.

Refer to the commitments note (Note 30) for potential commitments under the shareholder loans arrangements.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
11. Right of use assets		
(a) Office premises – at cost	24,352,681	15,345,320
Less accumulated depreciation and impairment	<u>(5,377,819)</u>	<u>(1,805,748)</u>
	<u>18,974,862</u>	<u>13,539,572</u>
(b) Office equipment – at cost	1,658,150	531,391
Less accumulated depreciation and impairment	<u>(490,371)</u>	<u>(109,835)</u>
	<u>1,167,779</u>	<u>421,556</u>
	<u>20,142,641</u>	<u>13,961,128</u>
 <u>Cost</u>		
Office premises		
Balance at beginning of year	15,345,320	-
Balance on transition	-	5,236,070
Adjustment due to lease modification	4,918,308	-
Additions	4,681,032	10,255,750
Disposals	(42,292)	(170,979)
Net foreign exchange differences	<u>(549,687)</u>	<u>24,479</u>
Balance at end of year	<u>24,352,681</u>	<u>15,345,320</u>
 Office equipment		
Balanced at beginning of year	531,391	-
Balance on transition	-	42,292
Additions	<u>1,126,759</u>	<u>489,099</u>
Balance at end of year	<u>1,658,150</u>	<u>531,391</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
11. Right of use assets		
Accumulated Depreciation/Amortisation/ Impairment		
Office premises		
Balance at beginning of year	(1,805,748)	-
Depreciation	(3,784,728)	(1,973,319)
Disposals	42,292	170,979
Net foreign exchange differences	<u>170,365</u>	<u>(3,408)</u>
Balance at end of year	<u>(5,377,819)</u>	<u>(1,805,748)</u>
Office equipment		
Balance at beginning of year	(109,835)	-
Depreciation	<u>(380,536)</u>	<u>(109,835)</u>
Balance at end of year	<u>(490,371)</u>	<u>(109,835)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$

12. Goodwill

Being goodwill in relation to the purchase of EM Solutions Pty Ltd as at 11 October 2019	<u>14,878,316</u>	<u>14,878,316</u>
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The consolidated entity acquired all the issued capital of EM Solutions Pty Ltd on 11 October 2019 as detailed in Note 28.

The carrying amount of goodwill has been allocated to cash generating units (“CGUs”) as follows:

Defence	2,504,938	2,504,938
Space	2,504,938	2,504,938
Communications	<u>9,868,440</u>	<u>9,868,440</u>
	<u>14,878,316</u>	<u>14,878,316</u>

A description of each of the CGUs is outlined in Note 34.

The consolidated entity tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired.

The recoverable amount of each cash-generating unit is determined based on the fair value less costs of disposal arrived by discounting a cash flow forecast with the weighted average cost of capital of each CGU. The cash flow forecast for each CGU which were approved by the directors consists of detailed projections for a five-year period included a terminal value calculation for the final year assuming a growth rate assumption in the range of 2.5% to 4.0%.

The weighted average cost of capital takes into account the risk free rate, equity market risk and the specific risk premium for each CGU. Discount rates used in the calculation are given below:

Defence	12.3%	14.1%
Space	18.0%	23.7%
Communications	14.5%	18.5%

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

Consolidated	
31	31
December	December
2020	2019
\$	\$

12. Goodwill (cont)

The consolidated entity conducted an analysis of the sensitivity of the impairment test to changes in key assumptions used to determine the recoverable amount for each of the CGUs to which goodwill is allocated. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the three CGU's is estimated would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

13. Intangible assets

Being intangible assets identified in the purchase of
EM Solutions Pty Ltd as at 11 October 2019

Core technology (not patented)	10,772,000	10,772,000
Patented technology	3,556,000	3,556,000
Software	486,000	486,000
Customer contracts and relationships	<u>2,776,000</u>	<u>2,776,000</u>
	17,590,000	17,590,000

Being intangible assets identified in the purchase of
the assets of Audacy Corporation LLC (now EOS
Link) and Collinear to form Spacelink Corporation on
28 May 2020

Net foreign exchange differences	4,492,407	-
Other additions during the year	52,757	-
	<u>289,335</u>	<u>-</u>
	22,424,499	17,590,000

Less

Amortisation of intangibles	<u>2,700,927</u>	<u>354,299</u>
	<u>19,723,572</u>	<u>17,235,701</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
14. Property, Plant and Equipment		
(a) Plant and equipment – at cost	14,546,429	12,051,766
Less accumulated depreciation and impairment	<u>(7,237,683)</u>	<u>(8,751,221)</u>
	<u>7,308,746</u>	<u>3,300,545</u>
(b) Leased assets – at cost	-	26,066
Less accumulated amortisation and impairment	<u>-</u>	<u>(26,066)</u>
	<u>-</u>	<u>-</u>
(c) Office equipment – at cost	3,774,960	5,879,604
Less accumulated depreciation and impairment	<u>(1,938,813)</u>	<u>(4,320,255)</u>
	<u>1,836,147</u>	<u>1,559,349</u>
(d) Furniture, fixtures and fittings – at cost	1,300,250	1,711,437
Less accumulated depreciation and impairment	<u>(310,956)</u>	<u>(803,502)</u>
	<u>989,294</u>	<u>907,935</u>
(e) Leasehold improvements – at cost	2,260,998	2,025,460
Less accumulated depreciation and impairment	<u>(1,322,428)</u>	<u>(1,362,124)</u>
	<u>938,570</u>	<u>663,336</u>
(f) Motor vehicle – at cost	503,195	370,810
Less accumulated depreciation and impairment	<u>(172,455)</u>	<u>(86,764)</u>
	<u>350,740</u>	<u>284,046</u>
(g) Computer software – at cost	1,353,760	436,726
Less accumulated depreciation	<u>(549,613)</u>	<u>(152,441)</u>
	<u>804,147</u>	<u>284,285</u>
(h) Test equipment – at cost	2,578,086	2,790,535
Less accumulated depreciation	<u>(1,760,383)</u>	<u>(1,728,522)</u>
	<u>817,703</u>	<u>1,062,013</u>
(i) Satellite – at cost	7,000,000	7,000,000
Less impairment	<u>(7,000,000)</u>	<u>(7,000,000)</u>
	<u>-</u>	<u>-</u>
(j) Capital works in progress	<u>16,080,171</u>	<u>-</u>
Total net book value of Property, Plant and Equipment	<u>29,125,518</u>	<u>8,061,509</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
14. Property, Plant and Equipment (cont)		
<u>Cost</u>		
Plant and equipment		
Balance at beginning of year	12,051,766	9,502,565
Additions	5,538,539	2,549,914
Transfers	88,815	-
Disposals and write offs	(3,116,301)	-
Net foreign currency exchange differences	<u>(16,390)</u>	<u>(713)</u>
Balance at end of year	<u>14,546,429</u>	<u>12,051,766</u>
Leased assets		
Balance at beginning of year	26,066	26,066
Disposals	<u>(26,066)</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>26,066</u>
Office equipment		
Balance at beginning of year	5,879,604	4,670,390
Additions	1,072,109	1,261,347
Transfers	(88,816)	(8,818)
Disposals and write offs	(3,043,055)	(43,848)
Net foreign currency exchange differences	<u>(44,882)</u>	<u>533</u>
Balance at end of year	<u>3,774,960</u>	<u>5,879,604</u>
Furniture, fixtures and fittings		
Balance at beginning of year	1,711,437	1,560,332
Additions	197,570	157,510
Disposals and write offs	(601,681)	(6,405)
Net foreign currency exchange differences	<u>(7,076)</u>	<u>-</u>
Balance at end of year	<u>1,300,250</u>	<u>1,711,437</u>
Leasehold improvements		
Balance at beginning of year	2,025,460	1,499,424
Additions	762,090	526,036
Disposals and write offs	(483,229)	-
Net foreign currency exchange differences	<u>(43,323)</u>	<u>-</u>
Balance at end of year	<u>2,260,998</u>	<u>2,025,460</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31 December 2020 \$	31 December 2019 \$
14. Property, Plant and Equipment (cont)		
Motor vehicle		
Balance at beginning of year	370,810	102,260
Additions	194,751	268,380
Disposals and write offs	(30,332)	-
Net foreign currency exchange differences	<u>(12,034)</u>	<u>170</u>
Balance at end of year	<u>523,195</u>	<u>370,810</u>
Computer software		
Balance at beginning of the year	436,726	128,499
Additions	1,038,800	299,243
Disposals	(114,654)	-
Transfers	-	8,818
Net foreign currency exchange differences	<u>(7,112)</u>	<u>166</u>
Balance at end of year	<u>1,353,760</u>	<u>436,726</u>
Test equipment –at cost		
Balance at beginning of the year	2,790,535	-
Additions	193,286	2,790,535
Disposals	<u>(405,735)</u>	<u>-</u>
Balance at end of year	<u>2,578,086</u>	<u>2,790,535</u>
Satellite		
Balance at beginning of year	7,000,000	7,000,000
Balance at end of year	<u>7,000,000</u>	<u>7,000,000</u>
Capital works in progress		
Balance at the beginning of the year	-	-
Additions	<u>16,080,171</u>	<u>-</u>
Balance at end of year	<u>16,080,171</u>	<u>-</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
14. Property, Plant and Equipment (cont)		
Accumulated Depreciation/Amortisation/ Impairment		
Plant and equipment		
Balance at beginning of year	(8,751,221)	(7,748,865)
Depreciation	(1,067,045)	(769,031)
Acquired from EM Solutions Pty Ltd	-	(231,677)
Disposals and write offs	3,116,301	-
Other movements	(544,998)	-
Net foreign currency exchange differences	<u>9,280</u>	<u>(1,648)</u>
Balance at end of year	<u>(7,237,683)</u>	<u>(8,751,221)</u>
Leased plant and equipment		
Balance at beginning of year	(26,066)	(26,066)
Disposals and write offs	<u>26,066</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>(26,066)</u>
Office equipment		
Balance at beginning of year	(4,320,255)	(3,909,971)
Depreciation	(706,697)	(365,127)
Other movements	22,487	8,842
Acquired from EM Solutions Pty Ltd	-	(101,909)
Disposals and write offs	3,043,044	43,848
Net foreign currency exchange differences	<u>22,608</u>	<u>4,062</u>
Balance at end of year	<u>(1,938,813)</u>	<u>(4,320,255)</u>
Furniture, fixtures and fittings		
Balance at beginning of year	(803,502)	(679,155)
Depreciation	(114,912)	(91,045)
Acquired from EM Solutions Pty Ltd	-	(40,047)
Disposals and write offs	601,681	6,405
Net foreign currency exchange differences	<u>5,777</u>	<u>340</u>
Balance at end of year	<u>(310,956)</u>	<u>(803,502)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
14. Property, Plant and Equipment (cont)		
Leasehold improvements		
Balance at beginning of year	(1,362,124)	(1,118,477)
Disposals and write offs	483,228	-
Depreciation	(472,101)	(243,647)
Net foreign currency exchange differences	<u>28,569</u>	<u>-</u>
Balance at end of year	<u>(1,322,428)</u>	<u>(1,362,124)</u>
Motor vehicle		
Balance at beginning of year	(86,764)	(36,377)
Disposals and write offs	17,204	-
Depreciation	(112,469)	(36,533)
Acquired from EM Solutions Pty Ltd	-	(13,480)
Net foreign currency exchange differences	<u>9,574</u>	<u>(374)</u>
Balance at end of year	<u>(172,455)</u>	<u>(86,764)</u>
Computer software		
Balance at beginning of the year	(152,441)	(9,776)
Disposals	21,772	-
Depreciation	(328,656)	(134,141)
Transfers	-	(8,842)
Other	(92,222)	-
Net foreign currency exchange differences	<u>1,934</u>	<u>318</u>
Balance at end of year	<u>(549,613)</u>	<u>(152,441)</u>
Test equipment		
Balance at beginning of the year	(1,728,522)	-
Depreciation	(243,834)	(55,482)
Disposal	211,854	-
Net foreign currency exchange differences	119	-
Acquired from EM Solutions Pty Ltd	<u>-</u>	<u>(1,673,040)</u>
Balance at end of year	<u>(1,760,383)</u>	<u>(1,728,522)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31 December 2020	31 December 2019
	\$	\$

14. Property, Plant and Equipment (cont)

Satellite

Balance at beginning of year	(7,000,000)	(7,000,000)
Balance at end of year	<u>(7,000,000)</u>	<u>(7,000,000)</u>

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

Impairment of property, plant and equipment

The consolidated entity has assessed the carrying amount of plant and equipment and determined no impairment charge for the year of Nil (2019: Nil).

15. Current trade and other payables

Trade payables	18,248,534	18,338,094
Accruals	7,480,477	16,245,406
Contract revenue	<u>26,506,642</u>	<u>2,386,503</u>
	<u>52,235,653</u>	<u>36,970,003</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
16. Leases		
Analysed as follows:		
Current	3,442,031	2,613,223
Non-current	<u>17,665,942</u>	<u>11,386,647</u>
	<u>21,107,973</u>	<u>13,999,870</u>
 Maturity analysis		
Year 1	4,602,728	3,221,803
Year 2	4,162,953	2,933,866
Year 3	3,720,925	2,789,806
Year 4	3,249,481	1,774,389
Year 5	2,791,722	1,438,046
Onwards	<u>6,108,025</u>	<u>4,139,070</u>
	24,635,834	16,296,980
Less: unearned interest	<u>(3,527,861)</u>	<u>(2,297,110)</u>
	<u>21,107,973</u>	<u>13,999,870</u>

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 currencies of the country concerned.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
17. Provisions		
Current		
Employee benefits (Note 19)	10,473,192	8,688,573
Provision for make good	-	43,919
Decommissioning costs	250,000	250,000
Under utilised space	-	212,715
Warranty (Note 18)	<u>4,375,882</u>	<u>3,687,612</u>
	<u>15,099,074</u>	<u>12,882,819</u>
Non-current		
Employee Benefits (Note 19)	919,353	757,199
Provision for make good	503,457	296,302
Estimated credit losses	-	134,273
Warranty (Note 18)	<u>7,883,942</u>	<u>5,325,693</u>
	<u>9,306,752</u>	<u>6,513,467</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31 December 2020 \$	31 December 2019 \$
17. Provisions (cont)		
Movement on decommissioning costs		
Balance at 1 January	250,000	250,000
Balance as at 31 December	<u>250,000</u>	<u>250,000</u>
The provision for decommissioning costs relate to an obligation to dismantle and refurbish a telescope at a future date.		
Movement in make good of premises – current		
Balance at 1 January	43,919	-
(Decreases)/ Increases resulting from re-measurement	(43,919)	
Increase during the period from new lease	<u>-</u>	<u>43,919</u>
Balance as at 31 December	<u>-</u>	<u>43,919</u>
Movement in make good of premises – non current		
Balance at 1 January	296,302	132,776
Increase during the period from new lease	<u>207,155</u>	<u>163,526</u>
Balance as at 31 December	<u>503,457</u>	<u>296,302</u>
Movement in under utilised space		
Balance at 1 January	212,715	884,855
(Decreases)/ Increases resulting from re-measurement	(212,715)	(672,140)
Balance as at 31 December	<u>-</u>	<u>212,715</u>
Movement in estimated credit losses		
Balance at 1 January	134,273	-
(Decreases)/ Increases resulting from re-measurement	(134,273)	134,273
Balance as at 31 December	<u>-</u>	<u>134,273</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31 December 2020 \$	31 December 2019 \$
18. Warranty Provisions		
Movement in warranty provision		
Balance at 1 January	9,013,305	3,946,156
Reductions resulting from expiry	(1,273,596)	(1,248,966)
Additional provisions recognised	<u>4,520,115</u>	<u>6,316,115</u>
Balance as at 31 December	<u>12,259,824</u>	<u>9,013,305</u>
Current (Note 17)	<u>4,375,882</u>	<u>3,687,612</u>
Non-Current (Note 17)	<u>7,883,942</u>	<u>5,325,693</u>

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

19. Employee Benefits

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

Provision for employee entitlements

Current (Note 17)	<u>10,473,192</u>	<u>8,688,573</u>
Non-Current (Note 17)	<u>919,353</u>	<u>757,199</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

	Consolidated	
	31 December 2020 \$	31 December 2019 \$
20. Issued capital		
Balance at the beginning of the financial year – Ordinary shares	274,311,590	161,784,727
Issue of 4,271,357 new shares at \$7.31 as part of the acquisition cost of EM Solutions Pty Ltd on 11 October 2019	-	31,223,620
Issue of 10,144,224 new shares at \$6.66 on 27 November 2019 (net of issuance costs)	-	64,261,948
Issue of 2,558,753 new shares at \$6.66 on 13 December 2019 under the Share Purchase Plan	-	17,041,295
Issue of 28,269,553 new shares at \$4.75 on 20 April 2020 (net of issuance costs)	127,775,501	-
Issue of 2,451,463 new shares at \$4.40 on 14 May 2020 under the Share Purchase Plan	10,786,437	-
Loan repayments on 202,500 shares issued under the Loan Funded Share Plan at \$2.99	<u>605,475</u>	-
Balance at the end of the financial year	<u>413,479,003</u>	<u>274,311,590</u>
Fully Paid Ordinary Shares	Number	Number
Balance at the beginning of financial year	113,078,213	96,103,879
Issue of new shares at \$7.31 on 11 October 2019	-	4,271,357
Issue of new shares at \$6.66 on 27 November 2019	-	10,144,224
Issue of new shares at \$6.66 under the Share Purchase Plan	-	2,558,753
Issue of new shares at \$4.75 on 20 April 2020	28,269,553	-
Issue of new shares at \$4.40 under the Share Purchase Plan on 14 May 2020	2,451,463	-
Issue of new shares at \$4.75 under the Loan Funded Share Plan to staff on 19 May 2020	2,270,000	-
Issue of new shares at \$5.92 under the Loan Funded Share Plan to Directors on 29 May 2020	2,500,000	-
Issue of new shares at \$5.62 under the Loan Funded Share Plan to staff on 10 August 2020	860,000	-
Issue of new shares at \$5.47 under the Loan Funded Share Plan to staff on 14 October 2020	<u>150,000</u>	-
Balance at end of financial year	<u>149,579,229</u>	<u>113,078,213</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

Consolidated	
31	31
December	December
2020	2019
\$	\$

20. Issued capital (cont)

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The shares issued under the Loan Funded Share Plan are restricted shares subject to vesting and performance criteria under the Plan detailed in Note 22 to the financial statements and are treated as in substance options for accounting purposes.

The loan repayments in respect of 202,500 shares issued under the Loan Funded Share Plan at \$2.99 each made during the year resulted in the increase in Issued Capital of \$605,475 as these shares are treated as in substance options for accounting purposes.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

21. Directors and Employee Share Option Plan

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

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

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

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

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

	2020		2019	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at the beginning of the financial year (i)	220,000	2.99	5,720,000	3.00
Granted during the year (ii)	855,000	5.02	-	-
Exercised during the year (iii)	-	-	-	-
Lapsed during the year (iv)	-	-	(5,500,000)	3.00
Balance at the end of the financial year (v)	1,075,000	4.60	220,000	2.99
Exercisable at end of the year	82,500	2.99	-	-

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

21. Directors and Employee Share Option Plan (cont)

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2020	220,000	20/6/18	31/3/23	2.99	\$61,369
2019	5,720,000	Various	31/1/19	3.00	\$1,920,119

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

(ii) Granted during the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2020					
Staff options	635,000	19/5/20	18/5/25	\$4.75	816,610
Staff options	<u>220,000</u>	16/11/20	16/11/25	\$5.82	<u>197,134</u>
	<u>855,000</u>				1,013,744
2019					
Staff options	—	-	-	-	—

These staff options have similar vesting and forfeiture conditions as those issued under the Loan Funded Share Plan summarised in Note 22. 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 following inputs were used in the model for the option grants made on 20 June 2018:

Dividend yield	-
Expected volatility (linearly interpolated)	30.00%
Risk free interest rate	2.32%
Expected life of options	1,745 days *
Grant date share price	\$2.91
Exercise price	\$2.99

* 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

21. Directors and Employee Share Option Plan (cont)

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 following inputs were used in the model for the 635,000 option grants made on 19 May 2020:

Dividend yield	-
Expected volatility (linearly interpolated)	40.00%
Risk free interest rate	0.40%
Expected life of options	1,789 days *
Grant date share price	\$4.98
Exercise price	\$4.75

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 following inputs were used in the model for the 220,000 option grants made on 16 November 2020:

Dividend yield	-
Expected volatility (linearly interpolated)	40.00%
Risk free interest rate	0.31%
Expected life of options	1,825 days *
Grant date share price	\$6.07
Exercise price	\$5.82

(iii) Exercised during the year

There were no options exercised during the year.

(iv) Lapsed during the year

Nil (2019: 5,500,000) Staff options lapsed during the year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)****21. Directors and Employee Share Option Plan (cont)**

(v) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2020					
Staff options	220,000	16/11/20	16/11/25	\$5.82	197,134
Staff options	635,000	19/5/20	18/5/25	\$4.75	408,305
Staff options	220,000	20/6/18	31/3/23	\$2.99	61,369
	<u>1,075,000</u>				<u>666,808</u>
2019					
Staff options	<u>220,000</u>	20/6/18	31/3/23	\$2.99	<u>61,369</u>

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

All options granted to staff on 20 June 2018 commence to vest after 30 June 2020 on the basis of 12.5% of their options each quarter subject to share price and profitability hurdles being achieved.

All options granted to staff on 19 May 2020 commence to vest after 31 December 2021 on the basis of 12.5% of their options each quarter subject to share price and profitability hurdles being achieved.

All options granted to staff on 16 November 2020 commence to vest after 31 December 2021 on the basis of 12.5% of their options each quarter subject to share price and profitability hurdles being achieved.

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 22 to the financial statements.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan

The Board has established an employee incentive scheme known as the Electro Optic Systems Holdings Limited Loan Funded Share Plan (LFSP), pursuant to which fully paid restricted ordinary shares in the Company (**Shares**) are acquired by Directors and selected employees of the Company 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 (5 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.

A) The Company issued 5,180,000 restricted fully paid ordinary shares under the LFSP at an issue price of \$2.99 on 20 June 2018 based on the 'Market Value' which was determined as the 20 day volume weighted average price of Shares up to and including the trading day immediately prior to the date of issue (that is, the 20 most recent trading days on the ASX). The issue of the 5,180,000 restricted fully paid ordinary shares at \$2.99 created loans to Directors and staff under the LFSP of \$15,488,200.

The 5,180,000 restricted fully paid ordinary shares were issued under the LFSP on 20 June 2018 as follows:

	<u>Number of Shares</u>	<u>Fair Value at grant date</u>
Directors and KMP's		
Mr Fred Bart	200,000	\$55,790
Dr Ben Greene	2,000,000	\$557,900
Mr Ian Dennis	200,000	\$55,790
Lt Gen Peter Leahy AC	200,000	\$55,790
Air Marshal Geoff Brown AO	200,000	\$55,790
The Hon Kate Lundy	200,000	\$55,790
Dr Craig Smith	250,000	\$69,738
Mr Scott Lamond	250,000	\$69,738
Mr Grant Sanderson	250,000	\$69,738
Mr Peter Short	<u>250,000</u>	<u>\$69,738</u>
	4,000,000	\$1,115,802
Selected Employees	<u>1,180,000</u>	<u>\$329,161</u>
	<u>5,180,000</u>	<u>\$1,444,963</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

The Shares issued to Directors and selected employees are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. The vesting conditions are split into two different tranches which are outlined in the table below. Directors and selected employees are required to satisfy the Vesting Conditions in order for their Shares to vest. While Directors and selected employees 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.

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares become vested and Directors and selected employees 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) Directors and selected 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.

To the extent Shares vest, they will be subject to sale restrictions for 6, 9, 12 and 15 months respectively as outlined in the tables.

TRANCHE A (applies to 50% of the total number of Shares to be issued to Directors and Employees)	
Measures and hurdles	Vested Shares can be sold after:
(i) EBIT of \$5m for 12 months ending 31 December 2018; <u>and</u> (ii) 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)	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)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

TRANCHE B (applies to 50% of the total number of Shares to be issued to Directors and Employees)	
Measures and hurdles	Vested Shares can be sold after:
(i) EBIT of \$15m for 12 months ending 31 December 2019; and (ii) 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)	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)

Over and above the above conditions which have been met, KMP and employees who work for Space and Defence Systems have to meet the additional hurdles summarised below:

Tranche A

- 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.

Tranche B

- 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;
- ii) Space Systems profit exceeds \$1M for 2020 and \$3M for 2021;
- iii) Defence Systems production exceeds 272 units or 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 and has been met.

If the above 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).

The 5,180,000 ordinary restricted fully paid shares issued on 20 June 2018 were 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

The following inputs were used in the model for the option grants made on 20 June 2018:

Dividend yield	-
Expected volatility (linearly interpolated)	30.00%
Risk free interest rate	2.32%
Expected life of options	1,745 days
Grant date share price	\$2.91
Issue price	\$2.99

B) The Company issued 2,270,000 new restricted fully paid ordinary shares to certain KMP's and staff under the LFSP at an issue price of \$4.75 on 19 May 2020 based on the "Market Price" which was determined as the same price as the institutional placement completed on 20 April 2020. The issue of the 2,270,000 restricted fully paid ordinary shares at \$4.75 created loans to KMP's and staff under the LFSP of \$10,782,500.

The 2,270,000 restricted fully paid ordinary shares were issued on 19 May 2020 as follows:

	<u>Number of Shares</u>	<u>Fair Value at grant date</u>
KMP's		
Dr Craig Smith	80,000	51,440
Mr Scott Lamond	80,000	51,440
Mr Tahir Khan	100,000	64,300
Mr Grant Sanderson	160,000	102,880
Mr Peter Short	<u>160,000</u>	<u>102,880</u>
	580,000	372,940
Selected Employees	<u>1,690,000</u>	<u>1,086,671</u>
	<u>2,270,000</u>	<u>1,459,611</u>

The Shares issued to certain KMP's and selected employees are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. The vesting conditions are split into two different tranches which are outlined in the table below. KMP's and selected employees are required to satisfy the Vesting Conditions in order for their Shares to vest. While KMP's and selected employees hold their Shares, they will be subject to Forfeiture Conditions and 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.

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares become vested and KMP's and selected employees 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).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

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:

- (c) 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
- (d) 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.

To the extent Loan Funded Shares vest, they will be subject to sale restrictions for 6, 9, 12 and 15 months respectively as outlined in the table below.

TRANCHE A (applies to 50% of the total number of Shares to be issued to the Employees)		
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 2 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 to be issued to the Employees)		
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 4 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)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

Over and above the above conditions, KMP's and employees in the various sectors have to meet the additional hurdles summarised below:

Tranche A

- 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 4 KMP's originally had an EOSH EBIT target of \$27m for the year ended 31 December 2020, however this was removed by the Board as a result of COVID; and
- iii) One executive in the Communications Systems sector has specific project milestones in relation to his project.

Tranche B

- 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 4 KMP's have an EOSH EBIT of \$36m for the year ended 31 December 2021; and
- iii) One executive in the Communications Systems sector has specific project milestones in relation to his project.

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, 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).

The 2,270,000 ordinary restricted fully paid shares issued on 19 May 2020 were 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.

The following inputs were used in the model for the option grants made on 19 May 2020:

Dividend yield	-
Expected volatility (linearly interpolated)	40.00%
Risk free interest rate	0.31%
Expected life of options	1,789 days
Grant date share price	\$4.98
Issue price	\$4.75

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

C) Following approval at the Annual General Meeting of shareholders held on 29 May 2020, the Company issued 2,500,000 new restricted fully paid ordinary shares to Directors under the LFSP at an issue price of \$4.92 on 29 May 2020 based on the 'Market Value' which was determined as the 20 day volume weighted average price of Shares up to and including the trading day immediately prior to the date of issue (that is, the 20 most recent trading days on the ASX). The issue of the 2,500,000 restricted fully paid ordinary shares at \$4.92 created loans to Directors under the LFSP of \$12,300,000.

The 2,500,000 restricted fully paid ordinary shares were issued under the LFSP on 29 May 2020 as follows:

	<u>Number of Shares</u>	<u>Fair Value at grant date</u>
Directors		
Mr Fred Bart	100,000	98,550
Dr Ben Greene	2,000,000	1,971,000
Mr Ian Dennis	100,000	98,550
Lt Gen Peter Leahy AC	100,000	98,550
Air Marshal Geoff Brown AO	100,000	98,550
The Hon Kate Lundy	<u>100,000</u>	<u>98,550</u>
	<u>2,500,000</u>	<u>2,463,750</u>

The Shares issued to Directors are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. The vesting conditions are split into two different tranches which are outlined in the table below. 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 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.

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).

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

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:

- (e) Directors 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
- (f) 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.

To the extent Loan Funded Shares vest, they will be subject to sale restrictions for 6, 9, 12 and 15 months respectively as outlined in the table below.

TRANCHE A (applies to 50% of the total number of Shares to be issued to the Directors)		
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 2 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 to be issued to the Directors)		
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 4 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)

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

The 2,500,000 ordinary restricted fully paid shares issued on 29 May 2020 were 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.

The following inputs were used in the model for the option grants made on 29 May 2020:

Dividend yield	-
Expected volatility (linearly interpolated)	40.00%
Risk free interest rate	0.34%
Expected life of options	1,752 days
Grant date share price	\$5.68
Issue price	\$4.92

D) The Company issued 860,000 new restricted fully paid ordinary shares to certain KMP's and staff under the LFSP at an issue price of \$5.62 on 10 August 2020 based on the "Market Price" which was determined as the 20 day volume weighted average price of Shares up to and including the trading day immediately prior to the date of issue (that is, the 20 most recent trading days on the ASX). The issue of the 860,000 restricted fully paid ordinary shares at \$4.62 created loans to KMP's and staff under the LFSP of \$4,833,200.

The 860,000 restricted fully paid ordinary shares were issued on 10 August 2020 as follows:

	<u>Number of Shares</u>	<u>Fair Value at grant date</u>
KMP's and staff		
Mr Neil Carter	500,000	379,000
Mr Glen Tindall	<u>330,000</u>	<u>250,140</u>
	830,000	629,140
Selected Employee	<u>30,000</u>	<u>22,740</u>
	<u>860,000</u>	<u>651,880</u>

The Shares issued to certain KMP's and selected employees are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. The vesting conditions are split into two different tranches which are outlined in the table below. KMP's and selected employees are required to satisfy the Vesting Conditions in order for their Shares to vest. While KMP's and selected employees hold their Shares, they will be subject to Forfeiture Conditions and 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares become vested and KMP's and selected employees 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:

- (g) 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
- (h) 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.

To the extent Loan Funded Shares vest, they will be subject to sale restrictions for 6, 9, 12 and 15 months respectively as outlined in the table below.

TRANCHE A (applies to 50% of the total number of Shares to be issued to the Employees)		
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 2 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 to be issued to the Employees)		
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 4 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)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

Over and above the above conditions, KMP and employees in the various sectors have to meet the additional hurdles established by the directors in relation to each sector.

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, 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).

The 860,000 ordinary restricted fully paid shares issued on 10 August 2020 were 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.

The following inputs were used in the model for the option grants made on 10 August 2020:

Dividend yield	-
Expected volatility (linearly interpolated)	40.00%
Risk free interest rate	0.34%
Expected life of options	1,679 days
Grant date share price	\$5.68
Issue price	\$5.62

E) The Company issued 150,000 new restricted fully paid ordinary shares to certain staff under the LFSP at an issue price of \$5.47 on 14 October 2020 based on the "Market Price" which was determined as the 20 day volume weighted average price of Shares up to and including the trading day immediately prior to the date of issue (that is, the 20 most recent trading days on the ASX). The issue of the 150,000 restricted fully paid ordinary shares at \$5.47 created loans to KMP's and staff under the LFSP of \$820,500.

The 150,000 restricted fully paid ordinary shares were issued on 14 October 2020 as follows:

	<u>Number of Shares</u>	<u>Fair Value at grant date</u>
Employees	<u>150,000</u>	<u>125,925</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

The Shares issued to certain KMP's and selected employees are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. The vesting conditions are split into two different tranches which are outlined in the table below. KMP's and selected employees are required to satisfy the Vesting Conditions in order for their Shares to vest. While KMP's and selected employees hold their Shares, they will be subject to Forfeiture Conditions and 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.

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares become vested and KMP's and selected employees 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:

- (i) 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
- (j) 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

To the extent Loan Funded Shares vest, they will be subject to sale restrictions for 6, 9, 12 and 15 months respectively as outlined in the table below.

TRANCHE A (applies to 50% of the total number of Shares to be issued to the Employees)		
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 2 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 to be issued to the Employees)		
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 4 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)

Over and above the above conditions, KMP and employees in the various sectors have to meet the additional hurdles established by the directors in relation to each sector.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

22. Loan Funded Share Plan (cont)

If the above 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).

The 150,000 ordinary restricted fully paid shares issued on 10 August 2020 were 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.

The following inputs were used in the model for the option grants made on 14 October 2020:

Dividend yield	-
Expected volatility (linearly interpolated)	40.00%
Risk free interest rate	0.23%
Expected life of options	1,643 days
Grant date share price	\$6.01
Issue price	\$5.47

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.

All unvested Shares will automatically vest in the event of a change in control of the Company.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
	\$	\$
23. Reserves		
Foreign currency translation	(3,167,394)	(1,061,206)
Employee equity-settled benefits	<u>11,580,036</u>	<u>10,373,224</u>
	<u>8,412,642</u>	<u>9,312,018</u>
Foreign currency translation		
Balance at beginning of financial year	(1,061,206)	(1,399,064)
Translation of foreign operations	<u>(2,106,188)</u>	<u>337,858</u>
Balance at end of financial year	<u>(3,167,394)</u>	<u>(1,061,206)</u>
<p>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.</p>		
Employee equity-settled benefits		
Balance at beginning of financial year	10,373,224	9,871,855
Share based payment	<u>1,206,812</u>	<u>501,369</u>
Balance at end of financial year	<u>11,580,036</u>	<u>10,373,224</u>

The employee equity-settled benefits reserve arises on the grant of share options to directors and executives under the Employee Share Option Plan and Loan Funded Share Plan. Further information about share-based payments to employees is made in Note 22 to the financial statements. Items included in employee equity-settled benefits reserve will not be reclassified subsequently to profit or loss.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
		Restated
	\$	\$
24. Accumulated Losses		
Balance at beginning of financial year	(56,550,804)	(74,570,452)
Net (loss)/ profit attributable to members of the parent entity	<u>(24,402,682)</u>	<u>18,019,648</u>
Balance at end of financial year	<u>(80,953,486)</u>	<u>(56,550,804)</u>

25. 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:

Cash and cash equivalents – current	<u>65,933,499</u>	<u>77,881,766</u>
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ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

	Consolidated	
	31	31
	December	December
	2020	2019
		Restated
	\$	\$
25. Notes to the Cash Flow Statement (Cont)		
(b) Restricted cash		
Cash held as security for performance bonds and leases	-	<u>102,025</u>
(c) Reconciliation of (loss)/ profit for the year to net cash flows from operating activities		
(Loss)/ Profit for the year	(29,901,050)	21,396,585
Amortisation of intangibles	2,346,628	354,299
Equity settled share-based payments	1,206,812	501,369
Depreciation of property, plant and equipment	3,045,714	1,694,948
Depreciation of right of use assets	4,165,264	2,083,154
Loss on sale of fixed assets	299,900	-
Net assets acquired from acquisition	-	4,392,972
Tax paid	(11,968,689)	(1,881,111)
Foreign exchange movements	(41,369)	634,860
(Increase)/decrease in assets		
Receivables	1,237,417	(4,997,782)
Contract assets	(93,744,917)	(44,772,583)
Inventories	(13,817,166)	(27,025,674)
Other assets	7,736,949	(7,571,733)
Increase/(decrease) in liabilities		
Provisions	5,009,540	9,137,625
Trade and other payables	(8,854,489)	19,488,710
Deferred income	<u>24,120,139</u>	<u>(7,265,269)</u>
Net cash (outflows) from operating activities	<u>(109,159,317)</u>	<u>(33,829,630)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

26. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 27.

(b) Key management personnel compensation

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

	31 December 2020	31 December 2019
	\$	\$
Short term benefits	3,318,555	1,878,683
Post-employment benefits	250,197	164,090
Share based payments	838,886	372,553
Long term benefits	<u>177,631</u>	<u>1,312,680</u>
	<u>4,585,269</u>	<u>3,728,006</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

26. Related party disclosures (cont)

(c) Transactions with other related parties

Other related parties includes:

- the parent entity;
- associates;
- Joint venture partners;
- entities with significant influence over the consolidated entity; and
- subsidiaries.

On 30 December 2019, the consolidated entity entered into an agreement to sell 2% of its convertible note to acquire 51% of AEI Air (Holdings) Limited for GBP78,431 should the consolidated entity exercise its convertible note. The purchaser was Alebtekar Remote Control Systems Manufacturing Of United Arab Emirates who is the 51% shareholder in EOS Advanced Technologies LLC.

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

During the year, the Company paid a total of \$140,000 (2019: \$76,814) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Fred Bart.

During the year, the Company paid \$70,000 (2019: \$47,222) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Ian Dennis.

During the year, the Company paid \$70,000 (2019: \$47,222) 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 \$216,000 (2019: \$141,073) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

During the year, the Company paid \$31,775 (2018: \$30,441) to Audio Pixels Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

(e) Parent entity

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

27. Controlled Entities

Name of Entity	Country of Incorporation	December 2020 %	December 2019 %
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), (v)	Australia	100	-
EOS Space Spectrum LLC (vi)	USA	100	-
Spacelink Corporation (vii)	USA	100	-
EOS Loan Plan Pty Ltd (viii)	Australia	-	-
EOS Advanced Technologies LLC (iv)	UAE	49	49
EOS Optronics GmbH	Germany	100	100
EM Solutions Pty Ltd (ii), (iii)	Australia	100	100
EOS Defense Systems Pte Limited	Singapore	100	100
EOS USA, Inc. (Inc in Nevada)	USA	100	100
EOS Technologies, Inc. (Inc in Arizona)	USA	100	100
EOS Defense Systems, Inc (Inc in Arizona)	USA	100	100
EOD Defense Systems USA Inc (Inc in Alabama)	USA	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.
- (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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

27. Controlled Entities (cont)

On 29 March 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) 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.
- (v) On 4 September 2020, EOS Communications Systems Pty Ltd was incorporated in Australia with the consolidated entity owning 100% of the issued share capital.
- (vi) On 28 May 2020, the consolidated entity acquired 100% of the issued share capital of EOS Space Spectrum LLC, obtaining control of EOS Space Spectrum LLC.
- (vii) On 15 September 2020, Spacelink Corporation was incorporated in Delaware, USA with the consolidated entity owning 100% of the issued share capital.
- (viii) EOS Loan Plan Pty Ltd is the trustee of the Loan Funded Share Plan. 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.

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

27(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 income statement of the entities which are parties to the deed of cross guarantee are:

	31 December 2020	31 December Restated 2019 Restated
	\$	\$
Revenue	184,789,288	160,841,154
Changes in inventories of work in progress and finished goods	(36,809,495)	(5,740,505)
Raw materials and consumables used	(79,358,918)	(82,358,595)
Employee benefits expense	(35,395,800)	(22,895,466)
Administration expenses	(16,336,737)	(13,969,054)
Amortisation of intangibles	(1,596,533)	(354,299)
Interest paid on right of use assets	(1,199,353)	(155,570)
Depreciation and amortisation of property, plant and equipment	(2,109,304)	(1,472,602)
Depreciation of right of use assets	(2,626,573)	(738,249)
Loss on sale of fixed assets	(299,900)	-
Foreign exchange (losses)/ gains	(21,809,465)	70,813
Occupancy costs	(1,176,656)	(720,119)
Other expenses	(2,010,713)	(1,424,097)
Provision for loss on loans to subsidiaries	<u>(9,156,651)</u>	<u>(17,156,416)</u>
(Loss)/ Profit before income tax	(25,096,810)	13,926,895
Income tax benefit/ (expense)	<u>4,693,154</u>	<u>(3,753,604)</u>
(Loss)/ Profit for the year	<u>(20,403,656)</u>	<u>10,173,291</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)****27(b) Consolidated income statement, consolidated statement of financial position and
movements in consolidated retained earnings of entities party to the deed of cross guarantee
(cont)**

The consolidated statement of financial position of the entities which are parties to the deed of cross guarantee are:

	Consolidated December 2020	Consolidated December Restated 2019
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	63,385,562	75,555,109
Trade and other receivables	35,438,666	26,306,652
Contact assets	124,464,309	39,736,920
Inventories	60,943,278	48,772,856
Other	<u>11,482,807</u>	<u>13,605,571</u>
TOTAL CURRENT ASSETS	<u>295,714,622</u>	<u>203,978,108</u>
NON-CURRENT ASSETS		
Trade and other receivables	2,063,782	12,055,798
Contract asset	13,364,149	4,415,213
Loans to subsidiaries	25,219,459	-
Other	956,073	7,237,591
Deferred tax assets	11,342,664	2,996,812
Security deposit	13,102,140	9,021,823
Loan to associate	2,391,940	2,632,783
Right of use asset	16,553,740	8,510,087
Goodwill	14,878,316	14,878,316
Intangible assets	15,639,168	17,235,701
Property, plant and equipment	<u>19,363,984</u>	<u>6,688,302</u>
TOTAL NON-CURRENT ASSETS	<u>134,875,415</u>	<u>85,672,426</u>
TOTAL ASSETS	<u>430,590,037</u>	<u>289,650,534</u>
CURRENT LIABILITIES		
Trade and other payables	49,492,514	34,248,144
Current tax liabilities	36,736	8,352,728
Lease liabilities	2,043,059	1,175,021
Provisions	<u>13,716,579</u>	<u>11,399,119</u>
TOTAL CURRENT LIABILITIES	<u>65,288,888</u>	<u>55,175,012</u>
NON-CURRENT LIABILITIES		
Lease liabilities	15,341,106	7,295,865
Provisions	<u>9,258,350</u>	<u>6,448,533</u>
TOTAL NON-CURRENT LIABILITIES	<u>24,599,456</u>	<u>13,744,398</u>
TOTAL LIABILITIES	<u>89,888,344</u>	<u>68,919,410</u>
NET ASSETS	<u>340,701,693</u>	<u>220,731,124</u>
EQUITY		
Issued capital	413,479,003	274,311,590
Reserves	11,580,036	10,373,224
Accumulated losses	<u>(84,357,346)</u>	<u>(63,953,690)</u>
TOTAL EQUITY	<u>340,701,693</u>	<u>220,731,124</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

27(b) Consolidated income statement, consolidated statement of financial position and movements in consolidated retained earnings of entities party to the deed of cross guarantee (cont)

The consolidated retained earnings/(accumulated losses) of the entities which are party to the deed of cross guarantee are:

	31 December 2020	31 December Restated 2019
	\$	\$
Balance at the start of the year	(63,953,690)	(74,126,981)
Add		
Net (loss)/ profit for the year	<u>(20,403,656)</u>	<u>10,173,291</u>
Balance at end of the year	<u>(84,357,346)</u>	<u>(63,953,690)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

28. Acquisition of subsidiary

On 11 October 2019, the consolidated entity acquired 100% of the issued share capital of EM Solutions Pty Ltd, obtaining control of EM Solutions Pty Ltd. EM Solutions Pty Ltd 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. The business of EM Solutions Pty Limited has potential synergies with both the Space and Defence segments of the consolidated entity.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Tangible assets	
Property, plant and equipment	1,195,767
Working capital	1,997,934
Deferred tax assets	1,111,697
Other assets and liabilities	131,750
Net cash	<u>277,313</u>
Net tangible operating assets	<u>4,714,461</u>
Intangible assets	
Core technology (not patented)	10,772,000
Patented technology	3,556,000
Software	486,000
Customer contracts and relationships	<u>2,776,000</u>
Total identifiable intangibles	17,590,000
Deferred tax on newly identified intangible assets	(4,389,228)
Goodwill	<u>14,878,316</u>
Total intangible assets	<u>28,079,088</u>
Total net assets acquired	<u>32,793,549</u>

Satisfied by:

Cash paid and payable	1,485,000
Equity issued	31,223,620
Completion adjustments	<u>84,929</u>
Total consideration for shares	<u>32,793,549</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

28. Acquisition of subsidiary (cont)

The Goodwill of \$14,878,316 arising from the acquisition has been determined from the Purchase Price Allocation from Leadenhall Valuations Pty Limited as at 11 October 2019.

The fair value of the 4,271,357 ordinary shares issued as part of the consideration paid for EM Solutions Pty Ltd was determined on the basis of fair market value on the date of issue of the shares being \$7.31.

Acquisition-related costs (included in administrative expenses) amounted to \$37,556.

EM Solutions Pty Ltd contributed \$1,891,428 revenue and a loss of \$202,821 to the consolidated entity's profit before tax for the period between 11 October 2019 (Date of acquisition) and 31 December 2019.

29. 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.

30. Contingent Liabilities and Commitments

- (a) Entities within the consolidated entity are involved in contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the consolidated entity.
- (b) Under the terms of a contract in the Defence sector, the Company has an obligation to enter into and execute an offset agreement with the overseas Government Authority. Once the agreement is executed, the Company will be required to lodge an offset bond of US\$16,133,925 with the overseas Government Authority to ensure that local content requirements are met. The offset agreement and bond were finalised on 12 February 2021. (See Note 31)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

30. Contingent Liabilities and Commitments

- (c) The consolidated entity provided a performance bond in respect of a contract in the Defence sector for US\$31,635,147 in relation to an overseas defence sector contract. The performance bond was provided by Efic under a Bond Facility Agreement and is secured by a cash security deposit of A\$12,313,468 (2019: A\$9,021,823) and a fixed and floating charge over the assets of the consolidated entity.
- (d) Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and relieved from the requirement to prepare and lodge an audited financial report. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee. This amount is included in the total security deposits shown on the consolidated Statement of Financial Position of \$16,671,414.
- (e) Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, has entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to GBP2,000,000 as a series of convertible notes which will entitle Electro Optic Systems Pty Limited to convert these convertible notes, when advanced in full, to acquire 49% of the equity in AEI Air (Holdings) Limited. Electro Optic Systems Pty Limited has also entered into a Put and Call Option Deed with the vendors of AEI Air (Holdings) Limited to acquire a further 49% from the vendors of AEI Air (Holdings) Limited based on a profitability formula over the four year period from 1 January 2019 to 31 December 2022 and meeting various milestones. The Put and Call Option Deed also includes provisions for Electro Optic Systems Pty Limited to make vendor loans of up to GBP1,714,500 to the vendors of AEI Air (Holdings) Limited which are fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option is exercised the loans are able to offset the exercise price on settlement. At the date of this report GBP1,500,000 has been advanced under the Unsecured Convertible Note Deed and no amounts have been advanced to the vendors under the Put and Call Option Deed at their request. Electro Optic Systems Pty Limited hold no direct equity in AEI Air (Holdings) Limited at the date of this report.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

31. Subsequent Events

Under the terms of a contract in the Defence sector, the Company has signed an offset agreement with the relevant overseas Government Authority on 12 February 2021 for an amount of US\$16,133,925. The Company has lodged a security deposit as part security for this guarantee. This offset bond is secured by a security deposit of US\$3,226,785 and a fixed and floating charge over the assets of the consolidated entity.

On 15 March 2021, the parent entity issue 1,185,000 ordinary shares under the Loan Funded Share Plan to employees at an issue price of \$5.27 representing the 20 day volume weighted average share price at the time of the offer of the shares. The parent entity also issued 475,000 unlisted options to overseas staff and consultants at an exercise price of \$5.27 which expire on 16 March 2026.

There have been no other 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 affect significantly the operations of the consolidated entity, the results of those operations, or state of affairs of the consolidated entity in future years.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

32. 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.

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

The 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.

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 and liabilities exposed to interest rate risk that are not designated in cash flow hedges:

	Consolidated	
	2020	2019
	\$	\$
Financial assets		
Cash and cash equivalents	65,933,499	77,881,766
Security deposits	<u>12,313,468</u>	<u>9,021,823</u>
	<u>78,246,967</u>	<u>86,903,589</u>

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

32. Financial risk management objectives and policies (cont)

At 31 December 2020, 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)	
	2020 \$	2019 \$	2020 \$	2019 \$
Consolidated				
+1% (100 basis points)	547,729	608,325	547,729	608,325
-.5% (50 basis points)	<u>(273,864)</u>	<u>(304,163)</u>	<u>(273,864)</u>	<u>(304,163)</u>

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

(b) Foreign currency risk

As a result of purchases of inventory denominated in United States Dollars, the consolidated entity's statement of financial position can be affected significantly by movements in the US\$/A\$ exchange rates. There are also exposures to Singapore 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

32. Financial risk management objectives and policies (cont)

At 31 December 2020, the consolidated entity had the following exposure to US\$ foreign currency:

	Consolidated	
	2020	2019
	\$	Restated \$
Financial assets		
Cash and cash equivalents	6,905,482	9,945,796
Security deposits	15,777,649	9,021,823
Contract asset	137,897,050	44,152,133
Trade and other receivables	<u>25,794,723</u>	<u>43,879,391</u>
	<u>186,374,904</u>	<u>106,999,143</u>
Financial liabilities		
Accruals	-	12,527,901
Lease liabilities	3,632,322	5,368,188
Trade and other payables	<u>3,270,171</u>	<u>5,001,530</u>
	<u>6,902,493</u>	<u>22,897,619</u>
Net exposure	<u>179,472,411</u>	<u>84,101,524</u>

All US\$ denominated financial instruments were translated to A\$ at 31 December 2020 at the exchange rate of 0.7707 (2019: 0.7013).

At 31 December 2020 and 2019, 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)	
	2020	2019	2020	2019
	\$	\$	\$	\$
		Restated		Restated
Consolidated				
AUD/USD +10%	(11,420,972)	(5,351,915)	(11,420,972)	(5,351,915)
AUD/USD -5%	<u>6,612,141</u>	<u>3,098,477</u>	<u>6,612,141</u>	<u>3,098,477</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

Financial risk management objectives and policies (cont)

At 31 December 2020, the consolidated entity had the following exposure to Singapore \$ foreign currency:

	Consolidated	
	2020	2019
	\$	\$
Financial assets		
Cash and cash equivalents	138,926	28,262
Trade and other receivables	<u>61,972</u>	<u>1,721</u>
	<u>200,268</u>	<u>29,983</u>
Financial liabilities		
Trade and other payables	83,566	23,544
Lease liabilities	<u>91,485</u>	<u>160,795</u>
	<u>175,051</u>	<u>184,339</u>
Net exposure	<u>25,217</u>	<u>(154,356)</u>

All Singapore \$ denominated financial instruments were translated to A\$ at 31 December 2020 at the exchange rate of 0.1.0187 (2019: 0.9437).

At 31 December 2020 and 2019, 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)	
	2020	2019	2020	2019
	\$	\$	\$	\$
Consolidated				
AUD/SING +10%	(2,128)	5,661	(2,128)	5,661
AUD/SING -5%	<u>569</u>	<u>(17,817)</u>	<u>569</u>	<u>(17,817)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

32. Financial risk management objectives and policies (cont)

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

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

(c) Credit risk management

Credit risk refers to the risk that 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 which are continuously monitored.

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

(d) Liquidity risk management

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

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate risk management framework for the management of the consolidated entity's short, medium and long term funding and liquidity requirements. The consolidated entity manages liquidity by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and managing 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)**

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

Consolidated	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
2020					
Other non-interest bearing liabilities	-	25,729,011	-	-	-
2019					
Other non-interest bearing liabilities	-	34,583,500	-	-	-

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.

Consolidated	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year Restated \$	1-5 years Restated \$
2020					
Non-interest bearing	-	5,771,383	-	-	-
Receivables	-	17,171,569	3,903,270	13,268,299	2,063,782
Contract asset	-	-	-	124,532,902	13,650,032
Fixed interest rate instruments	0.08	60,166,131	-	-	-
		<u>83,109,083</u>	<u>3,903,720</u>	<u>137,801,201</u>	<u>15,713,814</u>
2019					
Non-interest bearing	-	5,194,169	-	-	-
Receivables	-	25,867,331	-	-	12,055,798
Contract asset	-	-	-	39,736,920	4,415,213
Fixed interest rate instruments	1.04	42,724,165	30,077,466	-	-
		<u>73,785,665</u>	<u>30,077,466</u>	<u>39,736,920</u>	<u>16,471,011</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

32. Financial risk management objectives and policies (cont)

(e) Price risk

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

33. Details of Associates

Name of Entity:	AEI Air (Holdings) Limited
Place of incorporation:	United Kingdom
Principal place of business:	1 Kings Ride Park Ascot Berkshire SL5 8AP UK
Principal activity:	Defence products
Deemed percentage holding:	The consolidated entity holds unsecured convertible notes, which are convertible into shares representing a 49% equity interest.
Aggregate share of net profits/ (losses)	Nil – The investment in the associate is debt in nature and therefore the consolidated entity does not have a share in any profit/(loss).

Please refer to Note 10 for additional information.

The above associate is accounted for using the policy outlined in Note 1(z).

34. Segment Information

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

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

34. Segment Information (cont)

Product and Services within each Segment

Space Systems

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

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

Defence Systems

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

Communication Systems

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)****34. Segment Information (Cont)****Segment Revenues**

	Consolidated	
	31 December 2020	31 December 2019 Restated
	\$	\$
Communications	19,530,971	1,891,428
Space	4,304,097	5,019,254
Defence	<u>156,347,298</u>	<u>158,474,337</u>
Total of all segments	<u>180,182,366</u>	<u>165,385,019</u>

Segment Results

Communications	(2,518,270)	(202,821)
Space	1,000,140	414,318
Defence	<u>(24,824,330)</u>	<u>21,602,786</u>
Total of all segments	(26,342,460)	21,814,283
Unallocated holding company costs	<u>(3,558,590)</u>	<u>(417,698)</u>
(Loss)/ Profit before income tax expense	(29,901,050)	21,396,585
Income tax benefit/ (expense)	<u>4,693,154</u>	<u>(3,753,604)</u>
(Loss)/ Profit for the year	<u>(25,207,896)</u>	<u>17,642,981</u>

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period. The consolidated entity had two customers who each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment and provided combined revenue of \$129,336,913.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

34. Segment Information (cont)

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2020 \$	31 December 2019 Restated \$	31 December 2020 \$	31 December 2019 \$
Communications	32,432,251	17,822,705	13,836,505	7,882,435
Space	4,806,956	2,126,387	2,380,589	4,612,872
Defence	<u>317,536,578</u>	<u>198,400,574</u>	<u>81,569,094</u>	<u>66,223,580</u>
Total all segments	354,775,785	218,349,666	97,786,188	78,718,887
Unallocated cash and security deposit	<u>82,604,912</u>	<u>86,903,589</u>	-	-
Consolidated	<u>437,380,697</u>	<u>305,253,255</u>	<u>97,786,188</u>	<u>78,718,887</u>

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

Other Segment Information

	Depreciation, impairment and amortization of segment assets		Acquisition of segment assets	
	31 December 2020 \$	31 December 2019 \$	31 December 2020 \$	31 December 2019 \$
Communications	3,425,588	754,517	5,718,871	3,730,639
Space	61,084	26,087	2,313,561	122,570
Defence	<u>4,387,324</u>	<u>3,115,360</u>	<u>16,521,895</u>	<u>3,999,756</u>
Total all segments	7,873,996	3,895,964	24,554,327	7,852,965
Unallocated management	<u>1,683,610</u>	<u>236,437</u>	-	-
Consolidated	<u>9,557,606</u>	<u>4,132,401</u>	<u>24,554,327</u>	<u>7,852,965</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)****34. Segment Information (cont)**

Information on Geographical Segments

31 December 2020

Geographical Segments	Revenue from External Customers \$	Segment Assets* \$	Acquisition of Segment Assets \$
Australasia	52,631,195	68,913,417	17,697,790
Middle East - United Arab Emirates	107,816,575	2,482,860	486,856
Middle East - other	1,345,322	-	-
North America	10,293,815	12,473,769	6,369,681
Europe	<u>8,095,459</u>	<u>1</u>	<u>-</u>
Total	<u>180,182,366</u>	<u>83,870,047</u>	<u>24,554,327</u>

31 December 2019

Geographical Segments	Revenue from External Customers \$	Segment Assets* \$	Acquisition of Segment Assets \$
Australasia	22,750,752	55,486,937	6,649,144
Middle East - United Arab Emirates	44,913,294	3,053,274	1,041,462
North America	97,720,973	3,396,402	162,360
Europe	<u>-</u>	<u>77</u>	<u>-</u>
Total	<u>165,385,019</u>	<u>61,936,690</u>	<u>7,852,966</u>

*Segment Assets reflects the requirements of AASB 8.33 (b) and reflect only non-current assets other than financial instruments and deferred tax assets.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)****35. Parent entity disclosure**

	31 December 2020	31 December 2019 Restated
	\$	\$
Financial position		
Assets		
Current assets	53,442,438	72,132,587
Non-current assets	<u>195,314,394</u>	<u>76,418,863</u>
Total assets	<u>248,756,832</u>	<u>148,551,450</u>
Liabilities		
Current liabilities	<u>1,412,877</u>	<u>8,739,410</u>
Total liabilities	<u>1,412,877</u>	<u>8,739,410</u>
Net assets	<u>247,343,955</u>	<u>139,812,040</u>
Equity		
Issued capital	413,479,003	274,311,590
Reserves	10,526,740	10,373,224
(Accumulated losses)	<u>(176,661,788)</u>	<u>(144,872,774)</u>
Total equity	<u>247,343,955</u>	<u>139,812,040</u>
Financial performance		
(Loss) for the period	(31,789,014)	(7,093,611)
Other comprehensive income	<u>-</u>	<u>-</u>
	<u>(31,789,014)</u>	<u>(7,093,611)</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Guarantee provided under the deed of cross guarantee (i)	<u>89,888,344</u>	<u>68,919,410</u>
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Electro Optic Systems Holdings Limited has entered into a deed of cross guarantee on 29 March 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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (cont)

36. 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 and Germany.

Registered Office

Suite 3, Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia
Tel: 02 9233 3915
Fax: 02 9232 3411

Principal Place of Business

18 Wormald Street
Symonston
ACT 2609
Australia
Tel: 02 6222 7900
Fax: 02 6299 7687

USA Operations Tucson

2122 n Dragoon Street
Unit 6
Tucson, Arizona 85745
USA
Tel: +1 (520) 624 6399
Fax: +1 (520) 624 1906

German Operations

Ulrichsberger Str. 17
D-94469 Deggendorf
Germany
Tel: +49 991 2892 1964
Fax: +49 991 3719 1884

USA Operations Alabama

2865
Wall Triana Hwy SW
Huntsville
AL 35824 USA

Singapore Operations

10, Pandon Crescent
#06-01
Singapore 128466

Tel: +65 6304 3055

United Arab Emirates Operations

Tawazun Industrial Park (TIP)
Zone 2, Facility 15,
Al Ajban Area,
Abu Dhabi,
UAE

Tel: +971 2 492 7112

Fax: +971 2 492 7110

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364
AND CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

HOME EXCHANGE

The Company's ordinary shares are quoted on the Australian Stock Exchange Limited under the trading symbol "EOS". The Home Exchange is Sydney.

SUBSTANTIAL SHAREHOLDERS

At 23 March 2021 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary shares
EOS Loan Plan Pty Ltd	11,979,343	7.95%
Electro Optic Systems Holdings Ltd	11,912,500	7.90%
Dr Ben Greene	7,987,139	5.30%

VOTING RIGHTS

At 23 March 2021 there were 20,837 holders of fully paid ordinary shares.

Rule 74 of the Company's Constitution stipulates the voting rights of members as follows:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares and to this Constitution:

- (a) on a show of hands every person present in the capacity of a Member or a proxy, attorney or representative (or in more than one of these capacities) has one vote; and

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ACN 092 708 364
AND CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION (Cont)

- (b) On a poll every person present who is a Member or proxy, attorney or Representative has member present has:
- (i) For each fully paid share that the person holds or represents – one vote; and
 - (ii) For each share other than a fully paid share that the person holds or represents – that proportion of one vote that the amount paid (not credited) on the shares bears to the total amount paid and payable on the share (excluding amounts credited).”

OTHER INFORMATION

In accordance with Listing Rule 4.10.19, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

The Company has a sponsored Level 1 American Depositary Receipt (ADR) program on the Over-The-Counter (OTC) market in the USA with the ADR ticker symbol of EOPSY. The 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.

DISTRIBUTION OF SHAREHOLDINGS

At 23 March 2021 the distribution of shareholdings were:

Range	Ordinary Shareholders	Number of Shares	Percentage of Shares
1-1,000	12,562	5,273,079	3.50%
1,001 – 5,000	5,966	14,548,566	9.65%
5,001 – 10,000	1,234	9,283,904	6.16%
10,001 – 100,000	953	25,015,234	16.59%
100,001 and over	<u>122</u>	<u>96,643,446</u>	<u>64.10%</u>
	<u>20,837</u>	<u>150,764,229</u>	<u>100.00%</u>

There were 978 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 23 March 2021 the 20 largest ordinary shareholders held 47.21% of the total issued fully paid quoted ordinary shares of 150,764,229.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. EOS Loan Plan Pty Ltd	11,912,500	7.90%
2. JP Morgan Nominees Australia Limited	10,680,545	7.08%
3. HSBC Custody Nominees (Australia) Limited	8,148,625	5.40%
4. Citicorp Nominees Pty Limited	7,881,088	5.23%
5. Washington H. Soul Pattinson and Company	6,975,946	4.63%
6. N & J Properties Pty Limited	5,100,000	3.38%
7. Brazil Farming Pty Ltd	2,782,129	1.85%
8. Technology Transformations Pty Limited	2,770,662	1.84%
9. HSBC Custody Nominees (Australia) Limited	2,066,331	1.37%
10. UBS Nominees Pty Ltd	1,598,617	1.06%
11. BNP Paribus Nominees Pty Ltd	1,564,200	1.04%
12. Capitol Enterprises Limited	1,550,000	1.03%
13. A & D Wire Limited	1,457,276	0.98%
14. Technology Investments Pty Limited	1,216,477	0.81%
15. CS Fourth Nominees Pty Limited	1,212,255	0.80%
16. Emichrome Pty Limited	1,000,000	0.66%
17. Brispot Nominees Pty Ltd	935,236	0.62%
18. Bond Street Custodians Limited	820,000	0.54%
19. LALP Pty Ltd	783,577	0.52%
20. John Brian Ness + Kaaren Ann Ness	<u>715,951</u>	<u>0.47%</u>
	<u>71,171,415</u>	<u>47.21%</u>