



ACTIVITY STATEMENT FOR THE QUARTER ENDING 31 DECEMBER 2021

Canberra 31 January 2022

1. OVERVIEW

Despite the previously announced¹ deferral of some work from 2021 to 2022 due to the impact of COVID-19, during 2021 EOS successfully delivered a record number of both Remote Weapons Systems (RWS) and satellite terminals to an array of military customers under existing contracts.

EOS continues to pursue a number of significant opportunities, across its two divisions; Space Systems and Defence and has submitted tenders for several significant programs for which contract awards have been delayed by COVID-19. EOS expects that most of the delayed awards will be made over the next 12 months despite the ongoing nature of the pandemic.

The Company considers it is well placed to win a number of these contracts and EOS has continued to invest in capability during 2021. To date, significant investment to enhance the Company's infrastructure, management, security, quality, compliance, finance, IT and cyber to enable higher production levels have been made.

In addition, the Company continued to invest in research of cutting-edge technologies that it expects can be commercialised in the near term. The major areas of technology investment are directed energy, counter drone and next generation lethality solutions for remotely operated weapons platforms. Further product developments are being made to enhance industry leading RWS and satellite terminal products.

The other major investment undertaken in 2021 has been in the acceleration of the SpaceLink business, leveraging the key patents and spectrum licence acquired by EOS in previous years. SpaceLink plans to launch an initial constellation of four satellites in 2024. During the quarter, SpaceLink detailed the business opportunity in a presentation to the market². During the year SpaceLink has built a team of talented industry executives with the total number of employees at the end of December 2021 exceeding 30. In the initial phase, EOS is funding all SpaceLink expenses, which in 2021 totalled around \$37 million. In addition to ongoing support by EOS, SpaceLink is now moving forward to raise the funds it requires for its initial constellation of satellites from external sources.

2. COMPANY CASH

In Q4 2021, EOS achieved positive net cash from operating activities of \$18.6 million. This outcome was delivered after spending \$5.1 million on Research & Development activities during the quarter.

As at 31 December 2021 EOS held \$59.3 million in total available cash.

Cash balances can vary markedly between quarters depending upon production, invoicing and payment cycles under our contracts.

¹ See ASX announcement of 27 October 2021 "Significant Cash Receipt and Updates on Guidance"

² See ASX announcement of 27 October 2021 "[SpaceLink Investor Presentation and Update](#)"

3. BUSINESS ACTIVITIES FOR THE QUARTER

DEFENCE SYSTEMS

The Defence Systems division consists of four product groups, being Remote Weapon Systems (RWS); Counter Uninhabited Aerial Systems (CUAS) and Directed Energy (DE); Command, Control, Communications and Computers (C4); and Missile Systems.

In 2021, against a backdrop of disruption caused by COVID-19, Defence Systems achieved a record annual production of RWS. A total of 271 RWS were manufactured in 2021 compared to 209 in the prior year, an increase of 30 percent.

In this quarter, the operational highlights were:

- Production of the final units as part of the 251 RWS for the Australian Army's Protected Mobility vehicles was completed on time. This contract will be finalised in Q1 2022.
- The RWS deliveries for two Remotely Operated Combat Vehicle contracts announced in 2021 completed customer acceptance.
- The T2000 turret, as part of the Hanwha Land400 Phase 3 Redback offer, successfully completed the contracted live fire evaluation at the EOS Tongo Range Facility under ADF assessment in October.
- The Command, Control, Communications and Computers – Evolutionary Digital Ground Environment (C4 EDGE), Australian Army-sponsored sovereign industry initiative achieved a major milestone at a Battlegroup and Below Battlefield prototype demonstration on 6 December 2021. The Battlegroup and Below Battlefield Command System prototype was tested in an environment that integrated mounted, dismounted, and uninhabited platforms in a single network. The demonstration was held at the Majura Field Firing Training Range and signified the successful completion of the \$35 million program. Discussions are currently underway for follow on work during 2022/23.

The C4 EDGE program is a collaborative industry program demonstrating local industry's ability to provide battle critical communications solutions for the land domain. Launched in 2019 C4 EDGE has grown to include 30 Australian-owned and operated SMEs. Government Defence Industry Policy has sought greater emphasis on sovereign solutions and the ADF's identified investment in all Land C4 programs is estimated to be greater than \$5 billion over the next decade.

An Australian first, C4 EDGE leverages the expertise and cutting-edge technologies of its participants representing every State and Territory across Australia except the Northern Territory. It incorporates locally sourced combat radios, satellite terminals, cryptography, networking middleware, command applications, user interfaces, batteries, and power management into an effective and fully Australian-controlled system.

- EOS undertook a successful funded demonstration of its Directed Energy system during the quarter. Further systems integration and power enhancements are being undertaken prior to the next test scheduled in February 2022. Further detailed DE test activities will be conducted in 2022 under classified arrangements.
- Testing of EOS RWS firing new US proximity fused ammunition as part of EOS's Counter Uninhabited Aerial System (CUAS) was undertaken in November prior to planned demonstrations to several customers, including the US Army, in the first six months of 2022.

SPACE SYSTEMS

The Space Systems division now includes all EOS space and communications businesses, and operates as three units; SpaceLink, EM Solutions and Space Technologies.

In this quarter the key developments in these units have been:

SpaceLink

- After a wide tender process, OHB Systems AG was selected as the preferred vendor for the manufacture of the first constellation of four satellites. Final contract negotiations are underway.
- Progressed negotiations with investors for the initial tranche of funding for SpaceLink. Negotiations are ongoing.
- Progressed negotiations with key anchor customers in both government and the commercial sector.

E M Solutions

- Strong order intake for the world-leading two-metre maritime terminal product.
- Release of a new Antenna Diversity Systems (ADS) product, which allows multiple antenna systems to operate in various combined modes, with certification to support key military satellites.
- Revenue, earnings and order backlog continued at record levels.

Space Technologies

- Submitted a proposal for construction of the Australian Satellite Manufacturing Hub under the Commonwealth's Modern Manufacturing Initiative program; and
- Received international accolades for performance in combined Space Domain Awareness exercises between Australia, the US and other allied nations.

4. CORPORATE MATTERS

BOARD

Ms. Deena Shiff was appointed to the Board of Directors as of 7 December 2021.

SENIOR MANAGEMENT

On 19 January 2022, the Company announced the formation of the new position of Deputy CEO with the appointment of Dr Rowan Gilmore. Dr Gilmore will be supporting the Group CEO in a permanent part-time capacity.

5. RELATED PARTY TRANSACTIONS

Payments to related parties of the entity and their associates totalled \$267,681 for the quarter. These amounts include includes \$167,695 in salary and other benefits paid to the CEO and \$99,986 paid in directors' fees and superannuation to directors and entities associated with non-executive directors during the quarter.

6. 2021 ANNUAL RESULTS RELEASE

EOS expects to release its Appendix 4E – Preliminary Final Report on 28 February 2022 and its audited results on 31 March 2022.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ABN

95 092 708 364

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	92,448	233,415
1.2 Payments for		
(a) research and development	(5,146)	(16,270)
(b) product manufacturing and operating costs	(43,848)	(130,019)
(c) advertising and marketing	(478)	(1,877)
(d) leased assets	-	-
(e) staff costs	(12,573)	(51,323)
(f) administration and corporate costs	(9,044)	(26,279)
1.3 Dividends received	-	-
1.4 Interest received	83	456
1.5 Interest and other costs of finance paid	(2,195)	(5,104)
1.6 Income taxes paid	(844)	(2,607)
1.7 Government grants and tax incentives	34	133
1.8 Other (provide details if material)	167	386
1.9 Net cash from / (used in) operating activities	18,604	911

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(13,759)	(29,007)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities	-	
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Security deposits	-	(8,701)
2.6 Net cash from / (used in) investing activities	(13,759)	(37,708)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	249
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	35,000
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	(812)
3.8 Dividends paid	-	-
3.9 Repayment of lease liabilities	(1,224)	(4,536)
3.10 Net cash from / (used in) financing activities	(1,224)	29,901

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	54,929	65,933
4.2 Net cash from / (used in) operating activities (item 1.9 above)	18,604	911
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(13,759)	(37,708)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,224)	29,901
4.5	Effect of movement in exchange rates on cash held	717	230
4.6	Cash and cash equivalents at end of period	59,267	59,267

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	41,183	40,258
5.2	Call deposits	18,084	14,671
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	59,267	54,929
Note	Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees	28,141	27,048

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	268
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

The amount included in Item 6.1 includes \$167,695 in salary and other benefits paid to the CEO and \$99,986 paid in directors fees and superannuation to directors and entities associated with non-executive directors during the quarter.

7.	Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	35,000	35,000
7.2	Credit standby arrangements	-	-
7.3	Other – Export Finance Australia	69,460	65,787
7.4	Total financing facilities	104,460	100,787
7.5	Unused financing facilities available at quarter end		3,673
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	<p>Loan facility: During the year, the consolidated entity established an A\$35 million working capital facility with RNC Nominees Pty Ltd. The facility has a 1 year term and carries interest of 9% per annum. The loan is secured by a general security deed which ranks <i>pari passu</i> with the Export Finance Australia facility below. Transaction costs of A\$811,739 were incurred in obtaining the loan and are disclosed in Item 3.7. Interest paid on the loan is included in Item 1.5.</p> <p>Export Finance Australia facility:</p> <ol style="list-style-type: none"> The consolidated entity maintains a performance bond for US\$31,635,147 (A\$43,567,801) in relation to an overseas defence sector contract. The performance bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$12,654,055 (A\$17,427,116) and a fixed and floating charge over the assets of the consolidated entity. The costs of this facility are included in Item 1.5 as other costs of finance paid. The consolidated entity executed an offset agreement in relation to an overseas defence contract for an amount of US\$16,133,925 (A\$22,219,579) secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$3,226,785 (A\$4,443,916) and a fixed and floating charge over the assets of the consolidated entity. The costs of this facility are included in Item 1.5 as other costs of finance paid. 		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	18,604
8.2	Cash and cash equivalents at quarter end (item 4.6)	59,267
8.3	Unused finance facilities available at quarter end (item 7.5)	3,673
8.4	Total available funding (item 8.2 + item 8.3)	62,940
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2022

Authorised by the Board

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.