



ACTIVITY STATEMENT FOR THE QUARTER ENDED 31 MARCH 2023

Canberra, 28 April 2023

Electro Optic Systems Holdings Limited ("EOS" or the "Company") has filed its activity statement (4C) for the quarter ended 31 March 2023 ("Q1 2023").

1. QUARTERLY CASH SUMMARY

EOS previously announced on 17 April 2023 that its cash balance at 31 March 2023 was \$45.5m, representing an increase of \$23.8m from the 31 December 2022 cash balance of \$21.7m.

Receipts from Customers

- Receipts from Customers totalled \$62.1m during Q1 2023. These receipts included cash flow benefits arising from a contractual amendment that was agreed with a significant overseas customer in the Middle East in February 2023. The amendment allows EOS to invoice the customer earlier than would otherwise be the case and is intended to improve ongoing future cashflows.
- The Group continues to focus on improving Cash Receipts from Customers, including seeking contract amendments to existing contracts where appropriate, and securing new sales contracts that are cash-positive. This has included:
 - Conditional contract to supply a customer (STE) in Ukraine valued at US\$80m (approximately A\$120m), announced 3 April 2023, and
 - Second Conditional contract to supply a customer in Ukraine, valued at US\$41m (approximately A\$61m), announced on 26 April 2023.

Impact of Contract Asset Balance

- At the end of the quarter, EOS had a gross contract asset recorded, totalling approximately \$139m, representing work completed for existing contracts but not yet invoiced to the customer. This balance at 31 March 2023 represents a reduction of approximately \$25m on the gross contract asset recorded at 31 December 2022.
- This balance relates almost entirely to a large customer contract in the Middle East. The reduction in the contract balance during Q1 2023 was driven by Cash Receipts from Customers.
- In addition, at 31 March 2023, EOS had received payments in advance from customers totalling approximately \$24m. The net contract asset (after deducting payments received in advance) of \$116m at 31 March 2023 was \$26m lower than it was at 31 December 2022. This decrease was a key cause of the positive operating cash flow during the quarter ended 31 March 2023.

Other Impacts on Cash Flows

- EOS continues to target improved cash flows during 2023. Future cash flows are expected to include benefits arising from actions completed in Q4 2022, including the termination of the SpaceLink venture, and the \$25m cost reduction program, both previously announced.
- The Group is maintaining a disciplined approach to costs and capex.

Borrowing Summary

- As at the date of this announcement, EOS has the following borrowing facilities in place:
 - Working Capital Facility, \$20m principal, maturing on 6 September 2023
 - Working Capital Facility, \$15m principal, maturing on 11 April 2024
 - Term Loan Facility, \$35m principal, maturing on 11 October 2025
- The key terms of each of these facilities are included in the announcement dated 13 October 2022 “EOS enters into New Financing Facilities & continues development of Strategic Growth Options” (“EOS 13 October 2022 Announcement”). As at 31 March 2023, these facilities were fully drawn.
- The Group is required to comply with borrowing covenants related to cash inflows calculated on a rolling three-month basis. As disclosed on 17 April 2023, EOS complied with lending covenants at 31 January 2023 and 28 February 2023. During March 2023, the Company submitted a revised Cash Flow Forecast to the lenders and the Company did not breach the covenants at 31 March 2023. The company does not expect to breach lending covenants at April 2023. If adequate cash inflows are not received, including in future months, the Group may breach borrowing covenants and/or may not have sufficient liquidity and funds to continue operations.
- The Board continues to closely monitor the cash flow outlook for the business to ensure that adequate funding is in place. The Board will continue to regularly review and, if necessary, amend EOS capital structure to support the Program of Change.

2. MARKET, CUSTOMER & BUSINESS UPDATE

The global market for EOS products continued to develop positively during Q1 2023. This was partly due to the conflict in Ukraine and the impact on customer demand in NATO countries and other markets.

Typically, EOS operates in an industry where it can take an extended period of time (including up to, and beyond, twelve months) for new market opportunities to be converted into signed sales contracts. Currently, EOS is pursuing a number of material opportunities in different markets, including Ukraine and Australia.

Ukraine Market

- As noted above, EOS announced in April 2023 that it has secured two conditional contracts to supply Ukraine, with a total of up to 150 Remote Weapons Systems, valued at up to a total of US\$121m (approximately A\$181m)
- EOS continues to be in contract negotiations on further opportunities regarding the potential provision of more Remote Weapons Systems (RWS) and related components and spares. This includes opportunities for direct supply to Ukraine, and to other countries providing support to Ukraine. These opportunities have the potential to materially improve future revenue and cash flow. There is no certainty that any particular outcome or transaction will result from these discussions, and EOS will update the market as appropriate.

Australia Market

- On 3 August 2022, the Commonwealth of Australia announced that the Defence Strategic Review (“DSR”) would be undertaken to examine force structure, force posture and preparedness, and investment prioritisation.
- On 24 April 2023 the Commonwealth of Australia announced the outcome of the Defence Strategic Review (“DSR”). As part of this, some aspects of potential future projects and opportunities have been clarified.

Land 400 Phase 3

- As announced in the outcome of the DSR, the ADF’s Land 400 Phase 3 Project has been rescope
- Land 400 Phase 3 was previously expected to procure up to 450 Infantry Fighting Vehicles (“vehicles”) to include delivery from 2024/25/26 onwards.
- As a result of the DSR it is now expected that this project will include the procurement of 129 vehicles with delivery timing expected to evolve further.
- This project includes two contenders for the Prime Contractor role, Rheinmetall Defence Australia and Hanwha Defense Australia (“Hanwha”). EOS was included in the bid by both Prime Contractor options as the Remote Weapons Systems provider. In addition, for the Hanwha bid team, EOS was the proposed Australian turret manufacturer. It should be noted that the inclusion of EOS in a bid team does not mean that revenue is certain to arise for EOS, even if that bid team is successful.
- The next stage of the Land 400 Phase 3 Project is expected to include the down selection of the preferred Prime Contractor by the Commonwealth of Australia.
- Any future revenues for EOS will depend on a range of factors that are yet to be finalised. These include the final number of turreted vehicles sought by the customer, the selection of the preferred contractor, the selection of subcontractors, and subsequent negotiations between the parties.
- Subject to the outcome of further discussions and negotiations, it is anticipated that the Land 400 Phase 3 Project now has the potential to give rise to revenues for EOS from 2026 onwards. There is no certainty that any particular outcome or transaction will result from these discussions, and EOS will update the market as appropriate.

Defence Systems Business

- During Q1, the Defence Systems business continued to deliver products to key customers, including a significant overseas customer in the Middle East. This project was the main contributor to the group's Revenue in Q1 and to Cash Received from Customers during Q1.
- In addition, during the quarter, the Defence Systems business incurred costs and cash outflows in product manufacturing and operating costs, and in staff costs.

Space Business

- During Q1, the Space business continued to deliver products and services to customers under existing contracts.
- In addition, the Space business continued to pursue and win opportunities to deliver Space Domain Awareness services to new overseas customers.
- The size of these new customer opportunities is not financially material but they represent important steps with new customers in some new markets. These are expected to help underpin future strategic growth initiatives, including in Space Control and Space Warfare.

EM Solutions Business

- EOS business EM Solutions continued to develop its markets for naval satellite communications equipment during Q1.
- This included securing additional sales orders totalling A\$8m, previously announced on 17 April 2023.
- During the quarter, EM Solutions continued contract negotiations on potential sales opportunities.

3. PRODUCT DEVELOPMENT

EOS continued work during Q1 2023 to develop and commercialise its product range.

- This included discussions during Q1 with potential future customers for EOS Anti-Drone Counter Uncrewed Aerial System (CUAS). EOS has developed leading edge Anti-Drone CUAS technologies over several years, including Titanis and other products. Work to commercialise these products continued during the quarter. This included both traditional kinetic anti-drone solutions and high energy laser weapon (directed energy) solutions.
- Commercial discussions on our Anti-Drone products may lead to secured sales contracts in 2023, further establishing the commercial position of these products. There is no certainty that any particular outcome or transaction will result from these discussions, and EOS will update the market as appropriate.

4. COMPREHENSIVE PROGRAM OF CHANGE

EOS continues to embed a comprehensive “Program of Change”, as previously announced, which includes:

- **A Restructuring Program** to reduce costs, improve efficiency and align resources more closely with current activity levels. Total annual savings of \$25m from the restructuring program are expected to be achieved.

As part of this focus on cost reduction and improving profitability, and as a result of aligning resources with current activity levels, over 100 roles were made redundant in H2 2022. The work to closely manage headcount and costs in line with activity levels continued during Q1 2023. Work is continuing on opportunities to consolidate premises across locations.

During Q1 2023, as a result of the restructuring program, total payments for staff costs were \$8.7m, compared to \$15.7m in the previous quarter.

In addition to reducing headcount, EOS continues to take steps to appoint managers, including across key global markets, with a strong commercial background and industry experience.

- **The Cessation of Investment in SpaceLink**. On 16 November 2022, EOS announced that it had ceased investment in SpaceLink.

During the year ended 31 December 2022, total EOS cash outflows on SpaceLink were \$29.1m. During Q1 2023, total EOS cash outflows on SpaceLink were nil. EOS expects that future EOS cash outflows related to SpaceLink will be nil in Q2 2023 and beyond.

The comprehensive Program of Change is expected to assist in improving future cash flows and profitability, from 2023 onwards.

5. STRATEGIC GROWTH PARTNERSHIPS AND/OR CAPITAL TRANSACTIONS

As outlined in the [EOS 13 October 2022 announcement](#), EOS has received approaches from several parties in relation to potential strategic growth partnerships and/or capital transactions.

- A confidential process is ongoing to develop and assess potential strategic partners having particular regard to their ability to support diversification into new geographic markets and/or to complement our existing products in existing markets.
- There is no certainty that any particular outcome or transaction will result from the process. EOS will update the market as appropriate.

6. BOARD CHANGES.

As previously announced, Deena Shiff resigned as a Director of EOS, effective from 31 January 2023, Mr Robert Kaye SC resigned as a Director of EOS effective from 20 March 2023, and Dr Ben Greene resigned as a Director of EOS, effective from 27 March 2023.

7. RELATED PARTY TRANSACTIONS

Payments to related parties of the entity and their associates totalled \$310,341 for the quarter. These amounts include \$178,901 paid to a director (up until the date of his resignation as a director). That former director is also an executive. In addition, \$131,440 was paid in directors' fees and superannuation to non-executive directors and entities associated with non-executive directors during the quarter.

8. SUBSEQUENT EVENTS

Other than the items discussed above, there are no material subsequent events.

9. AUDITED RESULTS

All information included in this announcement is unaudited.

This announcement has been authorised for release to the ASX by the Board of Directors. All amounts are in Australian dollars unless stated.

Further information:

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ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS)

EOS operates in two divisions: Defence Systems and Space Systems

Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) and C4 systems for land warfare. Its key products include next-generation remote weapon systems, vehicle turrets, high-energy laser weapons (directed energy), as well as fully integrated and modular counter-UAS and C4 systems.

Space Systems includes all EOS space and communications businesses, and operates as two entities – Space Technologies and EM Solutions. Space Technologies specialises in applying EOS-developed optical sensors and effectors to detect, track and characterise objects in space. It includes capabilities in the domain of space control and space warfare. EM Solutions delivers world-leading RF and optical space communications technology. Its core product range centres around the development and production of high-end, broadband radio transceivers for satellite communications as well as satellite communications-on-the-move terminals for defence and government customers.

FORWARD LOOKING STATEMENTS

This announcement may contain certain "forward-looking statements" including statements regarding EOS' intent, belief or current expectations with respect to EOS' business and operations, market conditions, results of operations, financial condition, and risk management practices. The words "likely", "expect", "aim", "should", "could", "may", "anticipate", "predict", "believe", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings, financial position and performance, establishment costs and capital requirements are also forward-looking statements.

Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

This announcement may contain such statements that are subject to risk factors associated with an investment in EOS. Forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors that could cause the actual results, performances or achievements of EOS to be materially different from future results, performances or achievements expressed or implied by such statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement.

Appendix 4C

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

Name of entity

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ABN

95 092708 364

Quarter ended ("current quarter")

31 March 2023

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 1. | Cash flows from operating activities | | |
| 1.1 | Receipts from customers | 62,100 | 62,100 |
| 1.2 | Payments for | | |
| | research and development | (2,882) | (2,882) |
| | product manufacturing and operating costs | (12,956) | (12,956) |
| | advertising and marketing | (310) | (310) |
| | leased assets | - | - |
| | staff costs | (8,718) | (8,718) |
| | administration and corporate costs | (5,964) | (5,964) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 19 | 19 |
| 1.5 | Interest and other costs of finance paid | (1,492) | (1,492) |
| 1.6 | Income taxes paid | (385) | (385) |
| 1.7 | Government grants and tax incentives | 40 | 40 |
| 1.8 | Other (provide details if material) | 16 | 16 |
| 1.9 | Net cash from / (used in) operating activities | 29,468 | 29,468 |

| | | | |
|------------|---|----------------|----------------|
| 2. | Cash flows from investing activities | | |
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | (551) | (551) |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 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 | (2,890) | (2,890) |
| 2.6 | Net cash from / (used in) investing activities | (3,441) | (3,441) |

| | | | |
|-------------|---|----------------|----------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | - |
| 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 | - | - |
| 3.6 | Repayment of borrowings | (805) | (805) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Repayment of lease liabilities | (1,135) | (1,135) |
| 3.10 | Net cash from / (used in) financing activities | (1,940) | (1,940) |

Appendix 4C

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

| | | | |
|------------|--|---------------|---------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 21,681 | 21,681 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 29,468 | 29,468 |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (3,441) | (3,441) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (1,940) | (1,940) |
| 4.5 | Effect of movement in exchange rates on cash held | (274) | (274) |
| 4.6 | Cash and cash equivalents at end of period | 45,494 | 45,494 |

| | | | |
|-------------|---|------------------------------------|-------------------------------------|
| 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 | 45,494 | 21,681 |
| 5.2 | Call deposits | - | - |
| 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) | 45,494 | 21,681 |
| Note | Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantee | 37,723 | 35,588 |

| | | |
|-----------|---|------------------------------------|
| 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 | 310 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

These amounts included in item 6.1 include \$178,901 in salary and other benefits paid to a director (up until the date of his resignation as a director). That former director is also an executive. In addition, \$131,440 was paid in directors' fees and superannuation to non-executive directors and entities associated with non-executive directors during the quarter.

| | | | |
|-----|---|---|--|
| 7. | Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
| 7.1 | Loan facilities - WHSP | 72,976 | 72,976 |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other – Export Finance Australia | 75,143 | 74,801 |
| 7.4 | Total financing facilities | 148,119 | 147,777 |
| 7.5 | Unused financing facilities available at quarter end | 342 | |
| 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. | | |

WHSP Facilities:

Working Capital facility

On 6 September 2022, the consolidated entity entered into a \$20m 12-month working capital facility with Washington H. Soul Pattinson and Company Limited ('WHSP'). The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term loan facility and the Export Finance Australia facility below.

Term loan facility

On 12 October 2022, the consolidated entity entered into a \$35m three-year term loan facility with WHSP to refinance an existing facility. The facility carries interest of 22% per annum and line fees of 4% and is secured by a general security deed which ranks *pari passu* with the Export Finance Australia facility below.

Additional Working Capital Facility

On 12 October 2022, the consolidated entity entered into an Additional Working Capital Facility with WHSP. This facility is an 18-month facility for \$15m. The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term loan facility and the Export Finance Australia facility below.

The above facilities include an early repayment option and a 'make whole' clause.

The key terms of each of these facilities were included in the announcement dated 13 October 2022 "EOS enters into New Financing Facilities & continues development of Strategic Growth Options" ("EOS 13 October Announcement").

The interest and line fees incurred during the quarter have been capitalised into the outstanding balance and hence are not included in Item 1.5 above.

| | |
|-----|---|
| 7.6 | <p>Export Finance Australia facility:</p> <p>The consolidated entity maintains a performance bond in respect of a contract in Defence Systems of US\$33.3m (A\$49.1m). The performance bond was provided by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US\$15.9m (A\$23.4m) 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.</p> <p>Under the terms of a contract in Defence Systems, the consolidated entity signed an offset agreement with the relevant overseas Government Authority on 12 February 2021 for an amount of US\$16.9m (A\$25.0m). The offset bond was provided by Export Finance Australia under the same Bond Facility Agreement and is secured by a cash security deposit of US\$9.3m (A\$13.8m) 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.</p> |
|-----|---|

| 8. | Estimated cash available for future operating activities | \$A'000 |
|--|--|---------|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | 29,468 |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 45,494 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | 342 |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 45,836 |
| 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 | | |
| <i>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.</i> | | |

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: 28 April 2023

Authorised by the Board of Directors

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.