Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2022

ACN 092 708 364

This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period:	Half-year ended 30 June 2022
Previous Corresponding Period:	Half-year ended 30 June 2021

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %	Amount
Revenue from ordinary activities	Down	45%	$53,776,311
Loss from ordinary activities after tax attributable to members	Up	744%	To (98,945,653)
Loss attributable to members	Up	744%	To (98,945,653)

Dividends (Distributions)

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

Net tangible assets at 30 June 2022 (including right of use assets and lease liabilities recognised in accordance with AASB 16 *Leases*.)	$195,209,137
Number of ordinary shares outstanding at 30 June 2022	150,914,229
NTA per ordinary share at 30 June 2022	129.35 cents
NTA per ordinary share at 30 June 2021	190.15 cents

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

Refer to Review of Operations

RESULTS FOR HALF YEAR ENDED 30 JUNE 2022

1. FINANCIAL RESULTS

The consolidated entity ("EOS") or ("Company") reported an operating loss after tax of $98,945,653 for the six-month period to 30 June 2022 (30 June 2021: $11,727,207).

The operating loss after tax includes an amount of $54,436,435 (30 June 2021: $0) relating to impairment of assets and onerous contracts held in SpaceLink Corporation (refer below) and income tax benefit of $6,580,001 (30 June 2021: $2,913,825 income tax expense).

Revenues from ordinary activities were $53,776,311, representing a 45% reduction on the prior comparative period (30 June 2021: $97,820,154).

EBITDA (excluding impairment) was a loss of $34,698,825 compared to an EBITDA loss of $288,772 in the prior comparative period.

Foreign exchange gain of $6,415,897 contributed to the result for the period (30 June 2021: $3,378,516)

The consolidated entity reported net cash used by operations for the six-month period totalling $17,062,577 (30 June 2021: $4,568,974 net cash from operations). At 30 June 2022, the consolidated entity held cash totalling $13,843,434 (31 December 2021: $59,260,655).

Revenue and other income

For the half year ended 30 June 2022 the Consolidated Entity recorded revenue of $53.8m (30 June 2021: $97.8m).

This disappointing revenue result was driven by the Defence segment ($40.4m compared to 2021: $83.6m - 52% decrease). Revenue in the Space segment was in line with the prior year (2022: $14.6m, 2021: $14.7m).

The underlying causes of these H1 revenue shortfalls were supply chain, rework demands, and customer resource constraints:

- Supply chain issues impacted both EOS and those EOS customers that must provide customer-furnished equipment for EOS to perform a contract. In each case delays were often triggered by minor parts deficiencies that prevented entire systems from being timely completed.
- No EOS product was rejected by a customer for a quality deficiency or defective performance in this period, however EOS recalled for upgrade 120 units of a RWS sub-system which had already passed customer acceptance. The recall resulted in unexpected impacts on production of new equipment due to resource allocation which delayed revenue recognition.
- All EOS customers suffered significant delays in most aspects of contract award or administration. This was due to post-COVID constraints impacting at the same time as an increase in national security activity. Counter-intuitively, this caused a slowdown in most programs regardless of priority.

Other revenue in the period includes a one off $0.9m gain on the purchase of the business of KiwiStar Optics. Details regarding this acquisition are included in note 7 in the half year financial report.

Expenses

Expenses (excluding tax expense / benefit) in the 6 months increased from $110.5m in the prior comparable period to $155.9m in the six months to 30 June 2022. This increase was driven by:

a. Impairments

During the half-year period, as the result of a significant deterioration in the risk appetite in debt and equity markets, including from parties with whom the consolidated entity was previously in advanced stages of negotiation, and consequential delays in obtaining required funding for SpaceLink, the consolidated entity revised its plans in relation to SpaceLink to preserve recoverable value in the assets in SpaceLink Corporation while slowing outlays substantially.

This necessary strategic adjustment led to the carrying amounts of capital work in progress ($31,931,461), intangible assets ($2,784,825), FCC security bond ($5,804,445), Right of use assets ($4,057,255) and other assets ($2,602,892) being impaired in full during the half year. In addition, a provision was recognised in relation to onerous contracts in SpaceLink Corporation ($7,255,557).

As a result, an impairment and onerous contract loss of $54,436,436 has been recognised in profit or loss in relation to SpaceLink. These assets are used in the Group's Space reportable segment.

It is important to note that notwithstanding the impairment recognised in the period the consolidated entity continues to explore all opportunities to realise value from the SpaceLink assets and as at the date of this report remains in active negotiations with a number of potential partners and purchasers.

In addition to the impairment recognised in relation to SpaceLink assets the Group recognised an impairment loss of $3,789,316 in relation to goodwill and right of use assets held in the Defence reportable segment.

b. Material Costs

Material costs as a percentage of revenue increased from 58% of revenue in the period to 30 June 2021 to 64% of revenue in the period to 30 June 2022. This was driven by an elevated proportion of revenue from spare parts and additional parts required for repairs and rework. This is not expected to recur.

c. Employee benefit expenses

Employee benefit expenses increased from $33.8m in the 6 months to 30 June 2021 to $37.3m in the six months to 30 June 2022. This increase was caused by an increase in average headcount from 554 to 569 and an average salary increase of 10%.

d. Administrative costs

Administrative costs increased from $9.4m in the prior comparative period to $20.2m in the six months to 30 June 2022. These costs relate largely to capital review and restructuring which will continue at an elevated level for most of 2022 but are expected to decline to prior levels in 2023.

e. Finance costs

Finance costs increased from $2.9m in the six months to 30 June 2021 to $6.2m in the six months to 30 June 2022. This increase was largely driven by interest expense on the $35m loan taken out by the company in September 2021.

Cash

In the six months the cash balance held by the consolidated entity fell by $45.4m from $59.3m at 31 December 2021 to $13.8m at 30 June 2022. This fall was driven by net cash used in operating activities of $17.1m, net cash used in investing activities of $23.6m, net cash used in financing activities of $2.6m and a foreign exchange rate impact of $2.2m.

Net cash used in operating activities was driven by:

- receipts from customers of $74.5m, down from $117.0m in the prior comparative period. This reduction was caused by lower than forecast receipts from a significant overseas sovereign customer and increase in inventory levels to support projects.
- payments to suppliers and employees of $86.7m, down from $109.7m in the prior comparative period. Notwithstanding the increase in expenses in the period this reduction was caused by reduction in supplier payments as part of the cash management process during Q2.
- an increase in interest and other costs of finance paid relating to the debt facility entered into by the company in September 2021

Net cash used in financing activities was driven by:

- cash payments for property plant and equipment totalling $16.1m. Major items acquired during the period include mostly items for directed energy products and SpaceLink
- an increase in cash held in security deposits relating to performance bonds of $6.7m (refer note 8 in the half year financial report)
- a payment of $0.4m to acquire KiwiStar Optics. Details regarding this acquisition are included in note 7 in the half year financial report.

Net cash used in financing activities relates to the repayment of lease liabilities.

Contract Asset

A contract asset arises due to a difference between when the Consolidated Entity is required to recognise revenue under Australian Accounting Standards and when it is able to invoice customers.

Timing differences between the satisfaction of performance obligations, the ability to invoice under the contract and receipt of cash arise due to differences between the consolidated entity's revenue recognition policies and the terms of the underlying contracts. This is because contracts typically invoice customers on a milestone basis that may not necessarily reflect progress under the contract. At 30 June 2022 the contract asset was $133.3m (31 December 2021 $128.3m).

The $5m increase in the contract asset in the half year reflects the fact more revenue has been recognised in relation to these contracts than invoiced to the customer.

The company expects to unwind its contract asset position through the invoicing and collection of these amounts in future periods.

Key Drivers

The underlying H1 EBIT loss (excluding impairment) of $41m and negative cash flow was driven by three key elements:

a) Delays in the ability to revenue recognition and invoice customers referred to above

b) A cost structure in excess of that required for the level of revenue. This is being addressed as part of the restructure as set out below.

c) Significant operating expenses for SpaceLink ($15m) and new product development and testing ($3m directed energy).

2. STRATEGIC REVIEW AND IMPLEMENTATION

During H1 2022 the Company commenced a strategic review and from the outset of H2 2022, under the leadership of new CEO Dr Andreas Schwer, committed to execute the following key recommendations:

- Renew the leadership team and add managers with deep defence and commercial experience
- Simplify the business to focus more on the core defence and space technology businesses
- Undertake an organisational restructure to enable a more focused strategy
- More closely align R&D spending with commercial investment criteria
- Improve sales and marketing effectiveness in Asia, Europe and the US
- Prioritise capital towards core defence and space businesses and implement an alternative investment model for SpaceLink

3. EOS DEFENCE SYSTEMS

Despite a disappointing H1 2022 result in terms of KPIs in revenue and cash generation, EOS Defence moved forward on multiple fronts towards securing more business and improving financial performance in existing business lines.

- Middle East

  Middle East demand shows no sign of diminishing and EOS has submitted tenders in four markets in the Middle East in H1 2022. Demand for high-end products is sufficient to sustain a major ($150m annual output) production plant for the region.

- Australia

  EOS is committed to meeting the long-term requirements of the Australian Defence Force for advanced technology defence materiel such as RWS, turrets, CUAS capability, advanced missiles, communication and directed energy defence systems. EOS has contracts in most of these program areas.

  In H1 2022 EOS achieved several major CUAS milestones using directed energy. Its 35kW laser system demonstrated a drone destruction rate of up to 20 drones per minute at 1km range.

- Asia:

  EOS defence activities in Singapore are focused on supporting the approximately 400 units of EOS RWS in service, as well as supporting marketing efforts across ASEAN.

  In Korea, Indonesia and Thailand EOS has several hundred RWS in service. Each of these markets requires more EOS products for its force modernisation and CUAS programs.

- Europe:

  In H1 2022 EOS initiated technology transfer under a 2021 agreement with German defence entity Diehl Defence. The EOS-Diehl partnership intends to meet local demand for advanced RWS from a production facility in Germany.

  Developments in Ukraine have highlighted an urgent NATO need for CUAS (counter drone systems) preferably fitted with both kinetic and directed energy effectors. EOS has market leading technology in each category.

- USA:

  EOS weapon systems continue to perform well in US trials for advanced kinetic (ballistic) weapons for next generation applications such as autonomous vehicles and CUAS applications. Both these applications require accuracy and reliability so far met only by EOS products.

US trial success has led to EOS inclusion in industry teams for major US acquisition programs such as OMFV (optionally manned fighting vehicle), VAMPIRE and AMPV.

After an extended period of processing EOS Defense Systems USA Inc. executed a special security arrangement with the US government, clearing the way for classified work to be undertaken in EOS' premises in Huntsville AL. The facility clearance will come into effect in H2 2022.

- Ukraine support programs

  EOS is engaged in several proposed support programs funded by the US for Ukraine. These will be funded and proceed to award from Q3 2022.

These activities and market penetrations form a broad platform for further sales into this region.

4. EOS SPACE SYSTEMS

EM Solutions

EM Solutions ended H1 2022 with a record order backlog of $49M, representing around 24 months of capacity. The order book reflects a mix of demand across multiple product lines and multiple customers across Europe, North America, Asia and Australia.

Additional contracts have also been signed for 2m Fleet terminals by three existing European naval customers for delivery in 2023 through 2024 and a new European naval customer. Further orders were received by a middle eastern navy for 1m Cobra terminals for delivery in 2022.

Development of the new 2m Fleet terminal remains on schedule with a Royal Australian Navy (RAN) sea trial in Q3 2022. Deliveries to the European navies will commence in Q4 2022.

SEA1442 Phase 5 is a project within defence that intends to modernise the maritime communications of the Royal Australian Navy (RAN). EM Solutions submitted a response for this opportunity in June 2022.

EM Solutions has successfully delivered five of the six SEA1445 (Enhanced Cape Class Patrol Boats) project terminals for the Royal Australian Navy (RAN) with the installation of the first system in June 2022. Royal Australian Navy (RAN) also received the first installation of the dual Cobra 1m System with Antenna Diversity.

EM Solutions has completed a large Ka-Band transceiver order for use on deployable SATCOM terminals manufactured by a leading US Defence contractor. A follow-on order is expected H2 2022 for delivery 2023.

The global supply chain of electronics and semiconductors is still an issue which EM Solutions is managing. EM Solutions has so far avoided any major delays to production due to supply chain.

Space Technologies

EOS space continued to commercialise its technology across defence and commercial space domains with the following key achievements:

- Submitted tender response for JP9360 – Tranche 2. This is Australia's major near-term initiative in space domain awareness, an EOS specialisation.
- Successful contract award in the UDL SDA Marketplace for Cislunar tracking support for US customer:
  - This was a low value award to test the price competitiveness of EOS space data services in the commercial space data domain. EOS is the first Australian company to be contracted through the UDL Marketplace.
  - EOS successfully demonstrated Cislunar tracking to objects 300,000+ km away and were able to track most objects, under highly adverse conditions
  - Funded to participate in Australian Spacefest activities for Cislunar tracking.
- EOS joined SmartSat CRC as a core partner on 6 June 2022

- Successful demonstration to government customer for a space laser program.
- Project CHORUS (SmartSat CRC) progressed to manufacturing phase.
- Acquired Kiwistar Optics in New Zealand as a source for precision optics for new technology applications
- With bid partner Nova Systems, awarded MMI grant for a Satellite Manufacturing Facility for up to 500kg class satellites
- Successful design efforts for a directed energy beam director assembly for an international strategic partner
- Successful performance under a long-term space data delivery contract for satellite laser ranging.

SpaceLink

During H1 2022 SpaceLink achieved the following milestones:

- Continued to develop and refine the business model, including engagement with potential customers and partners;
- Received industry recognition in the form of the 2022 Satellite Mobile Innovation Award "Chairman's Award for Outstanding Innovation;" and
- Closed a contract with US Army Space & Missile Defense Command Technical Center for a cooperative research and development agreement (CRADA).

During H1 2022 SpaceLink continued discussions with potential strategic and funding partners and investors.

5. CORPORATE MATTERS

Payments to related parties of the entity and their associates totalled $596,176 for the half-year. These amounts include $386,728 in salary and other benefits to Director and then CEO Dr Ben Greene and $209,450 paid in directors' fees and superannuation to directors and entities associated with non-executive directors during the half-year.

6. SUBSEQUENT EVENTS

Finance

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

On 13 July 2022 the Company announced the appointment of Mr Clive Cuthell as Chief Finance Officer. Mr Cuthell commenced on 5 September 2022.

On 21 July 2022 the Company announced the appointment of Dr Andreas Schwer as Chief Executive Officer effective 1 August 2022.

On 27 July 2022 the Company received the net proceeds of $202,500 from the placement of 168,737 fully paid ordinary shares at $1.20 per share.

On 29 July 2022 the company announced its implementation of initial results of a strategic review conducted during H1 2022.

On 13 July 2022 Electro Optic Systems Pty Ltd and AEI Air (Holdings) (AEI) Limited entered into a settlement deed and release agreement wherein it was agreed that AEI would compensate EOS an amount of £1,642,289 for:

- the principal amount of convertible notes of £1,500,000 issued by EOS
- interest of £134,817, and

- payment for EOS ammunition used by AEI to date of £7,472.

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

AEI therefore ceased being an associate of the consolidated entity on this date.

Between 29 July and 2 August 2022 EOS received an amount of £1,615,355,60 representing the full settlement amount above less withholding tax of £26,963.40 (20% of the interest amount).

On 6 September 2022 the Company entered into binding agreements with a new financier for a 12-month working capital facility and a short-term refinancing of the $35m debt facility that matured on 6 September 2022. Full details can be found in note 1c to the financial statements.

New Business

Customer acquisition processes, stalled for an extended period, are showing signs of recovery in terms of an increased rate of contract awards and a reduction in program deferrals.

The Company has been formally down selected for contract award for the following new business since balance date:

- $5m for USA CUAS missile carrier program funded by the US government as aid for Ukraine
- $11m full funding for final integration and test of the EOS missile carrier for a major USA missile program
- $30m space data program with a major space entity, with further disclosure restricted pending contract execution
- $90m for RWS for an existing export customer
- Long term support program for naval satellite communication terminals
- A contract between SpaceLink and US DARPA for the government's Space-BACN program

7. OUTLOOK

The company is in the process of making the following changes in H2 2022 to reverse the EBIT and cash flow momentum of the first half and establish a strong platform for 2023:

A. Supply Chain

Constraints on the delivery of cannon and other parts are easing. Delays in the receipt of customer-furnished equipment necessary to enable the company to complete revenue and invoicing milestones are being addressed by increased supplies as well as contract waivers by the customer that bypass shortages.

B. Restructure

The Company is adopting a leaner structure that will prioritise existing business lines that are profitable and respond to customer procurement activity rather than anticipating requirements through customer planning documents. Full-year cost savings in excess of $20m are expected from these changes that include significant management change, reductions in workforce, and a simplified strategy and business plan.

C. Reduced Investments

As previously announced the Company has determined that the ongoing commercialisation of SpaceLink can only occur with the participation of a strategic or financial investor with an understanding of the specialised nature of that sector given the capital requirements and risk profile of this investment.

Accordingly, the Company is prioritising capital into the Defence and Space Technologies businesses and continues to explore potential strategic and funding partners and investors.

Initial discussions with strategic and financial investors indicate a broadening of funding sources for SpaceLink may be achieved by late in H2 2022 however there is no guarantee that any transaction will eventuate.

Tailwinds

In addition to the three key changes described directly above, to reverse H1 revenue and cash flow momentum the Company will leverage the following positives:

- The Company has built a contract asset of $133.3m, being products completed for existing contracts but not yet delivered or invoiced. This balance sheet asset will be converted to cash through current contracts.
- The Company continues to experience high levels of customer satisfaction with its product performance and quality. This is a strong advantage when most current customers are expanding their defence acquisition budgets and most are seeking more products of the types provided by EOS.
- Defence procurement processes in Australia, the US and across the Middle East are recovering from the disruption of COVID-19 and major re-organisations. After long delays in all these markets EOS has, post balance date, received notification for contract negotiations through H2 2022 exceeding $100m in aggregate contract value and covering both the space and defence sectors and all major geographic markets (see New Business post balance date above).
- The Company's directed energy products are recognised as price-performance leaders through success in achieving source selection in the two largest directed energy acquisition programs competed from open sources in 2022. EOS long experience in operational deployment of high-power lasers is a unique asset in monetising this technology which is now in high demand.

Headwinds

The Company must overcome headwinds to restore profitability:

- **Working capital** is tight and will remain so until investment in contract assets can be unwound back to cash. Refer note 1c 'Financial Statements going concern' in the half year financial report. The Company has signed a binding agreement in relation to the provision of short-term working capital but in the medium-term cash will be recovered by converting the contract asset to cash under existing contracts.
- **Market capitalisation** of the Company has fallen substantially over 30 months, reducing scale. This may mitigate against larger contract awards in some markets.
- **Inflation** will impact the cost of working capital as well as increase the profit risk on larger long-term contracts. The Company is negotiating staged procurements for some larger programs to reduce risk.

Outlook

During Q2 2022 the Company and its largest customer executed contract changes to streamline the invoicing and payment processes. Those changes are now in effect. The Company expects a recovery in its cash position in H2 based on a planned conversion of at least $40m contact asset to cash in H2. Further conversions are planned throughout 2023.

Guidance

Previous guidance issued by the Company indicated 2022 revenue at or above 2021 levels, i.e., $212m or above.

Company revenue is made up of delivery against contracts won in previous years plus delivery against new contracts won in the year.

Review of Operations

As noted above delivery against existing contracts in H1 2022 was impacted by supply chain constraints. Whilst these constraints are now easing some impact is now expected to continue into H2 2022 which may cause some revenue recognition to be delayed from H2 2022 into H1 2023.

Further, whilst the Company has not lost any contracts awarded by customers in the year, the Company advises that the awarding of new contracts has been slower than expected over recent months.

Notwithstanding this the Company has significant new business opportunities, including the potential provision of RWS systems to Ukraine, that may provide increases in revenue in the short term.

In light of these recent developments the Board of Directors have asked the newly appointed CEO and CFO to conduct a thorough re-assessment of the financial outlook for the Company, including an assessment of these evolving risks and opportunities and any impacts on revenue. This review will take place over the next several weeks.

An update on the outlook for the Company will be provided once this re-assessment has been completed.

This announcement has been authorised for release to ASX by the board of directors.

Further information:

Andreas Schwer
Group CEO

7 September 2022

Reconciliation of Loss for the period to EBITDA

	Period ended 30 June 2022	Period ended 30 June 2021
Loss for the period	(98,945,653)	(11,727,207)
Income tax benefit / (expense)	6,580,001	(2,913,825)
Loss before tax	(105,525,654)	(8,813,382)
Impairment of assets & Onerous contracts	(58,225,752)	-
Finance costs	(6,187,693)	(2,925,452)
EBIT excluding impairment loss & onerous contracts	(41,112,209)	(5,887,930)
Depreciation and amortisation expense	(6,413,384)	(5,599,158)
EBITDA excluding impairment loss & onerous contracts	(34,698,825)	(288,772)

Directors' Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2022. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Peter Leahy AC (Chairman)
Dr Ben Greene*
Mr Geoff Brown AO
Ms Kate Lundy
Mr David Black
Ms Deena Shiff

*Dr Ben Greene was also Chief Executive Officer until 1 August 2022 when Dr Andreas Schwer was appointed to that role.

Review of Operations

A detailed review of operations is included on pages 3 to 11 of this financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 13 of the half-year financial report.

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

On behalf of the Directors

Ben Greene
Director
Canberra, 7 September 2022

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7 September 2022

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

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 review of the financial report of Electro Optic Systems Holdings Limited for the half year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants

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

Conclusion

We have reviewed the half-year financial report of Electro Optic Systems Holdings Limited (the "Company") and its subsidiaries (the "consolidated entity"), which comprises the condensed consolidated statement of financial position as at 30 June 2022, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 16 to 39.

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

- Giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001.*

Material Uncertainty Related to Going Concern

We draw attention to Note 1(c) in the financial report, which indicates that the consolidated entity incurred a net loss before tax of $105,525,654 (June 2021: $8,813,382 loss), used net cash of $17,062,577 in operating activities (June 2021: net cash received of $4,568,974) and had a net decrease of cash held of $45,417,221 (June 2021: net decrease in cash held of $14,815,603). These conditions, along with other matters as set forth in Note 1(c), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Basis for Conclusion

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

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 review report.

Directors' Responsibilities for the Half-year Financial Report

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

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Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants

Melbourne, 7 September 2022

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; and

b) 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 consolidated entity.

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

On behalf of the Directors

Ben Greene
Director
Canberra, 7 September 2022

Condensed Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2022

	Note	Half-year ended 30 June 2022 $	Half-year ended 30 June 2021 $
Revenue	2(a)	53,776,311	97,820,154
Other Revenue	2(b)	1,231,877	489,575
Foreign exchange gains	2(c)	6,415,897	3,378,516
Changes in inventories of finished goods and work in progress		(8,607,629)	17,890,212
Raw materials and consumables used		(25,742,421)	(74,612,036)
Employee benefits expense		(37,260,424)	(33,814,989)
Administrative costs		(20,154,401)	(9,410,267)
Finance costs	2(d)	(6,187,693)	(2,925,452)
Depreciation and amortisation expense	2(d)	(6,413,384)	(5,599,158)
Impairment of Spacelink and Defence assets	2(d),3	(50,970,195)	-
SpaceLink Onerous contract expense	2(d),3	(7,255,557)	-
Loss on sale of fixed assets		(9,960)	(8,917)
Lease expenses		(200,393)	(36,994)
Occupancy costs		(1,050,394)	(774,084)
Other expenses		(3,097,288)	(1,209,942)
Loss before income tax expense		(105,525,654)	(8,813,382)
Income tax benefit/ (expense)		6,580,001	(2,913,825)
Loss for the period	6	(98,945,653)	(11,727,207)
Attributable to:			
Owners of the Company		(98,441,958)	(11,325,310)
Non-controlling interests		(503,695)	(401,897)
		(98,945,653)	(11,727,207)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		2,259,727	559,313
Income tax relating to components of other comprehensive income		-	-
		2,259,727	559,313
Total comprehensive loss for the period		(96,685,926)	(11,167,894)
Attributable to:			
Owners of the Company		(96,182,231)	(10,765,997)
Non-controlling interests		(503,695)	(401,897)
		(96,685,926)	(11,167,894)
(Loss) per share:			
Basic (cents per share)	6	(71.23)	(8.53)
Diluted (cents per share)	6	(71.23)	(8.53)

Notes to the condensed consolidated financial statements are included on pages 21 to 39.

Condensed Consolidated statement of financial position as at 30 June 2022

	Note	30 June 2022 $	31 December 2021 $
Current Assets			
Cash and cash equivalents		13,843,434	59,260,655
Trade and other receivables		10,572,760	23,533,145
Contract assets		108,986,295	106,843,848
Tax receivable		845,648	195,928
Inventories		83,188,381	74,579,376
Other		18,603,303	20,398,751
Total Current Assets		236,039,821	284,811,703
Non-Current Assets			
Contract assets		24,327,303	21,452,681
Deferred tax asset		11,323,158	4,506,193
Security deposits	8(g)	31,298,227	28,140,759
Loan to associate		2,505,959	2,513,380
Right of use assets		24,251,300	28,601,271
Goodwill		12,373,378	14,878,316
Intangible assets		13,244,367	17,109,179
Property, plant and equipment		34,833,500	56,078,490
Total Non-Current Assets		154,157,192	173,280,269
Total Assets		390,197,013	458,091,972
Current Liabilities			
Trade and other payables		62,092,784	43,036,517
Lease liabilities		5,139,189	5,159,847
Secured borrowings		34,833,022	34,448,384
Provisions		21,167,461	14,178,464
Total Current Liabilities		123,232,456	96,823,212
Non-Current Liabilities			
Lease liabilities		25,988,206	24,864,019
Provisions		8,826,310	7,248,891
Total Non-Current Liabilities		34,814,516	32,112,910
Total Liabilities		158,046,972	128,936,122
Net Assets		232,150,041	329,155,850
Equity			
Issued capital	4	413,727,547	413,727,547
Reserves	5	13,506,893	11,567,049
Accumulated losses		(192,399,964)	(93,958,006)
Equity attributable to owners of the Company		234,834,476	331,336,590
Non-controlling interests		(2,684,435)	(2,180,740)
Total Equity		232,150,041	329,155,850

Notes to the condensed consolidated financial statements are included on pages 21 to 39.

Condensed Consolidated Statement of changes in equity for the half-year ended 30 June 2022

	Total $	Accumulated losses $	Issued capital $	Non-controlling interests $	Foreign currency translation reserve $	Employee equity settled benefits reserve $
Consolidated						
Balance at 1 January 2022	329,155,850	(93,958,006)	413,727,547	(2,180,740)	(1,823,365)	13,390,414
(Loss) for the period	(98,945,653)	(98,441,958)	-	(503,695)	-	-
Other comprehensive income for the period	2,259,727	-	-	-	2,259,727	-
Total comprehensive income for the period	(96,685,926)	(98,441,958)	-	(503,695)	2,259,727	-
Recognition of share-based payments	(319,883)	-	-	-	-	(319,883)
Balance at 30 June 2022	232,150,041	(192,399,964)	413,727,547	(2,684,435)	436,362	13,070,531
Consolidated						
Balance at 1 January 2021	339,594,509	(80,953,486)	413,479,003	(1,343,650)	(3,167,394)	11,580,036
(Loss) for the period	(11,727,207)	(11,325,310)	-	(401,897)	-	-
Other comprehensive income for the period	559,313	-	-	-	559,313	-
Total comprehensive income for the period	(11,167,894)	(11,325,310)	-	(401,897)	559,313	-
Recognition of share-based payments	946,337	-	-	-	-	946,337
Repayment of loans in respect of 83,125 Loan Funded Share Plan shares at $2.99 per share	248,544	-	248,544	-	-	-
Balance at 30 June 2021	329,621,496	(92,278,796)	413,727,547	(1,745,547)	(2,608,081)	12,526,373

Notes to the condensed consolidated financial statements are included on pages 21 to 39.

Condensed Consolidated statement of cash flows for the half-year ended 30 June 2022

	Half-year ended 30 June 2022 $	Half-year ended 30 June 2021 $
Cash Flows From Operating Activities		
Receipts from customers	74,490,290	116,982,103
Payments to suppliers and employees	(86,188,733)	(109,695,000)
Income tax paid	(888,545)	(759,183)
Interest and bill discounts received	7,052	296,485
Interest and other costs of finance paid	(4,482,641)	(2,255,431)
Net cash (used in)/ from operating activities	(17,062,577)	4,568,974
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(16,065,718)	(8,970,317)
Security deposits	(7,146,992)	(8,353,859)
Payment to acquire business	(421,042)	-
Net cash used in investing activities	(23,633,752)	(17,324,176)
Cash Flows From Financing Activities		
Repayment of loans in respect of Loan Funded Share Plan shares	-	248,544
Repayment of lease liabilities	(2,558,743)	(2,126,009)
Net cash used in financing activities	(2,558,743)	(1,877,465)
Net Decrease in Cash Held	(43,255,072)	(14,632,667)
Cash and cash equivalents at the beginning of the half-year	59,260,655	65,933,499
Effects of exchange rate changes on the balance of cash held in foreign currencies	(2,162,149)	(182,936)
Cash and cash equivalents at the end of the half-year	13,843,434	51,117,896

Notes to the condensed consolidated financial statements are included on pages 21 to 39.

1 (a) Statement of Compliance

The half-year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

1 (b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the consolidated entity's 2021 annual financial report for the financial year ended 31 December 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The condensed consolidated financial statements were authorised for issue by the Directors on 7 September 2022.

1 (c) Financial statements going concern

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

The consolidated entity incurred a loss before tax of $105,525,654 (June 2021: $8,813,382 loss), net cash outflow from operating activities of $17,062,577 (June 2021: net cash received of $4,568,974) and net decrease in cash held of $45,417,221 (net decrease of $43,255,072 adjusting for foreign exchange fluctuations of $2,162,149) (June 2021: net decrease in cash held of $14,815,603).

In addition, as detailed in note 8(d) and 8(e), the consolidated entity was in breach of certain covenants in relation to the consolidated entity's EFA facility agreement and its debt agreement with RNC Nominees Pty Ltd (RNC) as at 30 June 2022.

On 17 March 2022 the Company announced that it had engaged Greenhill & Co. as financial adviser to assist in undertaking a strategic review, including ensuring all feasible funding options are explored and assessed in the context of the broader range of strategic options for the business. An update on the review provided to the market on 29 July 2022 noted that the consolidated entity was well advanced in negotiations with a number of established providers who have offered debt or hybrid instruments to satisfy the near-term funding requirements. The update also noted that the consolidated entity was in discussions to either replace or extend an existing $35 million debt facility.

Since 29 July 2022 these discussions have continued as the Company has progressed discussions regarding the refinancing of the Group with major existing and prospective shareholders.

On 6 September 2022 the Company entered into a binding agreement with a new financier for a 12-month working capital facility with the following key terms:

1 (c) Financial statements going concern (cont)

1. **Facility Limit**: $22.5m – this consists of a maximum of $20m in available funds structured as 4 advances of $5m each and $2.5m in upfront fees to be capitalised into the facility
2. **Termination Date**: The Facility has a 12-month term.
3. **Availability Period**: the lender may refuse to fund the fourth advance in its absolute discretion. The first three advances ($15m in total) are committed.
4. **Interest and Minimum Earn Amount**: interest of 15% per annum (Default rate: 20.5% per annum). The lender requires payment of a minimum amount of interest, upfront fees, and line fees during the term of the Facility of $6.9m.
5. **Mandatory Prepayment**: If any Group assets in excess of $1m are sold, or any shares in any entity in the Group are sold, the Lender may demand immediate prepayment of part, or all, outstanding Advances and cancel part, or all, of the Facility.
6. **Representations, Financial Covenants, General Undertakings**: There are a number of representations, financial covenants and general undertakings as detailed in as detailed in Note 11 Subsequent Events.
7. **Events of Default**: The events of default included in the agreement are typical for a facility of this nature.
8. **Review Events**: The review events included in the agreement are typical for a facility of this nature with the main event being a change of control. As is normal for agreements of this nature a negotiation period will apply in relation to review events.

The working capital agreement states that the facility will be available (subject to satisfaction of conditions precedent) for drawing from the date of the Facility Agreement to the 12 months following the first advance. The conditions precedent include specific requirements regarding information on the use of funds and the provision of cash flow forecast information.

Further, on 6 September 2022 the Company also entered into a refinancing agreement with the new financier in relation to the $35m debt facility that was due to expire on 6 September 2022. The refinancing arrangement is on substantially the same terms as the existing debt facility but with a maturity date of 26 September 2022, with any further extensions able to be granted at the financier's sole discretion if it is satisfied that the parties are continuing to work together towards the recapitalisation of the Group.

The consolidated entity has prepared a cash flow forecast that supports the ability of the consolidated entity to continue as a going concern. The underlying assumptions of the forecast include acknowledgement of the intrinsic operational risks of the business, the existing cash position of the consolidated entity, the ongoing loan repayment requirements and the need to obtain further funding.

Management, with support of the Directors, have taken steps to ensure the consolidated entity remains a going concern, noting the following key assumptions in the forecast:

1. A successful recapitalisation and/or refinancing of the Group including:
    i. rolling over the $35 million working capital facility or refinancing it before its maturity on 26 September 2022
    ii. securing additional debt or equity funding for temporary working capital requirements (over and above the new $20m working capital facility set out above)
2. Continued conversion of the contract asset to cash with approximately $40 million converted by December 2022;
3. Undertaking an organisational restructure to right size the cost base as part of a more focused strategy

1 (c) Financial statements going concern (cont)
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:

1. The successful recapitalisation and/or refinancing of the consolidated entity;
2. The continued forbearance in relation to existing covenant breaches (refer note 8)
3. The continued forbearance of creditors in respect of amounts which are beyond normal payment terms
4. Key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
5. The successful and timely execution of an organisational restructure to reduce the cost base;
6. Conversion of key opportunities within the Defence and Space sector pipelines;
7. The continued ability of the consolidated entity to deliver contracts on time, to the required specifications and within budgeted costs; and
8. The continued support of the financiers to the consolidated entity.

The directors note that whilst the consolidated entity has been successful in securing debt finance and raising capital in the past, and anticipates continued forbearance in relation to the 30 June 2022 covenant breaches, there is no assurance that it will be successful in agreeing a recapitalisation and/or refinancing prior to 26 September 2022, or succeed in achieving the matters referred to above.

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

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

1 (d) Critical accounting judgements

Management makes estimates and assumptions concerning the future. The resulting accounting estimates may not, by definition, equal the related actual results. Areas of estimates and judgement that have the most significant effect on the amounts recognised in the financial statements are disclosed in Note 1(x) of the consolidated financial statements for the year ended 31 December 2021, except for those noted and updated below.

Impairment of assets

EOS assesses each cash-generating unit (CGU) and individual asset level, where possible, at period end, to determine whether there are any indications of impairment or reversal of impairment. Where an indicator of impairment or reversal exists, a formal estimate of the recoverable amount is made.

Recoverable amount is the higher of the fair value less cost of disposal and value in use calculated in accordance with our accounting policy.

These assessments require the use of estimates and assumptions such as our pipeline of sales opportunities, discount rates applied to estimated free cash flows, and long-term growth rates applied in estimating the future value of our CGUs.

During the six-month period ended 30 June 2022, management identified impairment indicators relating to individual assets of SpaceLink Corporation ("SpaceLink") which resulted in an impairment expense of $47,180,878 being recognised in the statement of profit or loss and other comprehensive income. Refer to notes 2(d) and 3 below for further details.

Also, the Company recognised an onerous contract provision of $7,255,557 in relation to contracts entered by Spacelink where the unavoidable costs exceed the economic benefits expected to be received.

In addition to the indicator noted above, management noted that the carrying amount of the consolidated entity's net assets was more than its market capitalisation as at 30 June 2022 and that performance to date was below budget. These are specific indicators of impairment under AASB 136 *Impairment of assets*. As a result, management performed an assessment of the recoverable amount of each of its four CGUs, Defence, EM Solutions (EMS), Space and SpaceLink. As a result of this, the Company recognised a further impairment in the Defence CGU amounting to $3,789,316. Refer to notes 2(d) and 3 below for further details.

1 (e) New Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year. These standards do not materially affect the consolidated entity's accounting policies or any of the amounts recognised in the financial statements.

1 (e) New Accounting Standards (cont)

New and revised AASB Standards in issue but not yet effective
At the date of authorisation of the financial statements, the consolidated entity has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/amendment	Effective for annual periods beginning on or after
AASB 2014-10 Amendments to AASs –*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2025
AASB 2021-5 Amendments to AASs-*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
AASB 2021-2 Amendments to AASB 108 –*Definition of Accounting Estimates*	1 January 2023
AASB 2020-1 Amendments to AASs –*Classification of Liabilities as Current or Non-current*	1 January 2023

	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $

2. Loss From Ordinary Activities

Loss from ordinary activities before income tax includes the following items of revenue and expense:

(a) Revenue

	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $
Sale of goods	48,288,065	77,201,851
Providing services	5,488,246	20,618,303
Total revenue	**53,776,311**	**97,820,154**

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

	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $
Over time		
Defence segment – Sale of goods	32,254,178	33,283,610
Defence segment – Providing services	2,608,256	17,097,234
Space segment – Sale of Goods	9,903,852	7,902,732
Space segment – Providing services	1,038,335	7,083
Total revenue recognised over time	**45,804,621**	**58,290,659**
At a point in time		
Space segment – sale of goods	2,347,435	4,463,164
Space segment – providing services	988,725	2,134,456
Defence segment – sale of goods	3,782,600	31,552,345
Defence segment – Providing services	852,930	1,379,530
Total revenue recognised at a point in time	**7,971,690**	**39,529,495**
Total Revenue	**53,776,311**	**97,820,154**

Revenue in relation to a contract earned on a milestone basis has been adjusted for variable elements. During the half year period, 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.

	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $

2. Loss From Ordinary Activities (cont)

(b) Other Revenue

Grant revenue	108,227	84,431
Interest received	143,586	296,485
Other income	37,579	2,552
Bargain purchase (Note 7)	870,383	-
Rent received	72,102	106,107
Other Revenue	**1,231,877**	**489,575**

(c) Foreign exchange gains

Foreign exchange gains	6,415,897	3,378,516

(d) Expenses

Loss for the period includes the following expenses:

Interest paid	3,275,736	5,695
Interest on discounting of the contract asset	1,705,052	670,021
Interest on lease liabilities	770,433	550,741
Other finance costs	436,472	1,698,995
Finance costs	**6,187,693**	**2,925,452**
Depreciation and amortisation	6,413,384	5,599,158
Impairment of SpaceLink assets (Note 3)	47,180,878	-
Impairment of Goodwill allocated to Defence (Note 3)	2,504,938	-
Impairment of ROU asset in Defence (Note 3)	1,284,379	-
SpaceLink Onerous contract expense (Note 3)	7,255,557	-

3. Impairment of assets

Impairment indicators and testing

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

During the six-month period ended 30 June 2022, management identified indicators of impairment in regard to certain individual assets within Spacelink and a company-wide indicator of impairment in relation to the consolidated entity's market capitalisation and performance against budgets for the financial year.

SpaceLink

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

The review led to the carrying amounts of capital work in progress ($31,931,461), intangible assets ($2,784,825), FCC security bond ($5,804,445), Right of use assets ($4,057,255) and other assets ($2,602,892) being impaired in full during the half year.

As a result, an impairment loss of $47,180,878 has been recognised in profit or loss. These assets are reported in the Group's Space reportable segment.

In addition, the Group recognised a provision for onerous contracts of $7,255,557 in relation to Spacelink. Refer note 1 (d).

Notwithstanding the impairment recognised in the period the consolidated entity continues to explore all opportunities to realise value from the SpaceLink assets and as at the date of this report remains in active negotiations with a number of potential partners and purchasers.

Market capitalisation deficiency and performance against budget

In addition to the indicator noted above, management noted that the carrying amount of the consolidated entity's net assets was more than its market capitalisation as at 30 June 2022 and financial performance for the current financial year to date was below budget. These are specific indicators of impairment under AASB 136 Impairment of Assets. As a result, management performed an assessment of the recoverable amount of each of its four CGUs, Defence, EMS, Space and SpaceLink. As a result of this, the Company recognised further impairments in the Defence CGU in relation to all of the Goodwill allocated to the CGU of $2,504,938 and a right of use asset of $1,284,378.

The assessment undertaken for the EMS and Space CGUs showed the recoverable amount being higher than the carrying value and the consolidated entity did not identify any impairment to the carrying values of such CGUs.

Key assumptions and sensitivities used for impairment assessment performed during the half-year ended 30 June 2022

The recoverable amount of the CGUs of the consolidated entity have been assessed by reference to the higher of value in use and fair value less cost of disposal arrived by discounting a cash flow forecast with the weighted average cost of capital of each CGU. The key assumptions used for the impairment assessments are disclosed in Note 1(x) of the consolidated financial statements for the year ended 31 December 2021 and 1(d) above.

Management has updated the discount rates used based on the prevailing market conditions as of 30 June 2022. The discount rates used in calculating the fair value less costs of disposal for each CGU are given below:

Defence	15.1%
Space	21.4%
EMS	17.0%

The consolidated entity conducted a sensitivity analysis to test changes in the key assumptions used to determine the recoverable amount for each of the CGUs to which goodwill is allocated.

The consolidated entity has undertaken sensitivity testing of the Space and EMS CGUs. Sensitivity testing for these CGUs included reducing the sales pipeline by 10%, reducing the long-term growth rate to 0.5% and increasing the discount rate by an additional 3%. These sensitivities in each case do not cause the respective recoverable amounts of the Space and EMS CGUs to fall below their respective carrying values.

As an impairment has been recognised relating to the Defence CGU during the reporting period, any change in key assumption that reduces recoverable amount would potentially cause further impairment.

	30 June 2022 $	31 December 2021 $

4. Issued Capital

Balance at the beginning of the financial year – Ordinary shares	413,727,547	413,479,003
Loan repayments on 83,125 shares issued under the Loan Funded Share Plan at $2.99	-	248,544
Balance at the end of the financial period	413,727,547	413,727,547

Fully Paid Ordinary Shares	Number	Number
Balance at the beginning of financial year	150,914,229	149,579,229
Issue of 1,185,000 new shares at $5.27 on 15 March 2021 under the Loan Funded Share Plan	-	1,185,000
Issue of 150,000 new shares at $4.06 on 31 May 2021 to a Director under the Loan Funded Share Plan	-	150,000
Balance at end of financial period	150,914,229	150,914,229

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

5. Reserves

Foreign currency translation reserve	436,362	(1,823,365)
Employee equity settled benefits reserve	13,070,531	13,390,414
Balance at end of financial period	13,506,893	11,567,049

The movement in the employee equity settled reserve was a credit to profit and loss due to revisions to the probabilities associated with non-market conditions.

6. Loss Per Share

	Half-year to 30 June 2022 ¢ per share	Half-year to 30 June 2021 ¢ per share
Basic EPS	(71.23 cents)	(8.53 cents)
Diluted EPS	(71.23 cents)	(8.53 cents)

6. Loss Per Share (cont)

	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $
Basic Profit per Share The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Loss (a)	(98,945,653)	(11,727,207)

	2022 No.	2021 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share (b) and (c)	138,904,854	137,513,381

(a) Loss used in the calculation of basic earnings per share is the same as net loss in the statement of profit or loss and other comprehensive income.

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

(c) The 2,270,000 ordinary shares issued on 19 May 2020 at a price of $4.75 each, the 2,500,000 ordinary shares issued on 29 May 2020 at $4.92 each, the 860,000 ordinary shares issued on 10 August 2020 at $5.62 each, the 150,000 ordinary shares issued on 14 October 2020 at $5.47 each, the 1,185,000 ordinary shares issued on 15 March 2021 at $5.27 each and the 150,000 ordinary shares issued on 31 May 2021 at $4.06 each, 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 in the period.

7. Acquisition of subsidiary

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

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

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

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

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

The accounting for the Transaction has been provisionally determined as at 30 June 2022 using initial measurements which are subject to change during the measurement period. The measurement period shall not exceed one year from the date of acquisition and will end as soon as the deferred tax implications of the Transaction have been determined. Based on this, the provisional fair value of net assets acquired, and liabilities assumed are as follows:

	Half-year to 30 June 2022 $
Property, plant and equipment	1,338,227
Employee related liabilities	(150,193)
Total net assets acquired	**1,188,034**
Satisfied by:	
Cash paid	231,985
Prepaid rent reducing consideration paid	(150,694)
Salary costs paid which are treated as in substance consideration	236,360
Total consideration	**317,651**
Provisional Bargain purchase on acquisition	**870,383**

7. Acquisition of subsidiary (cont)

A provisional bargain purchase gain of $870,383 has been recognised in the Group's condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2022 as the provisional value of the net assets of the acquired business is greater than the consideration paid. The bargain purchase gain arose as the seller was motivated to sell the assets to a known third party and the gain is included in Other Revenue under Note 2.

Acquisition related expenses of $14,329 have been expensed to profit and loss.

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

EOSOTL contributed $111,917 revenue and a loss of $127,770 to the consolidated entity's loss before tax for the period between 7 April 2022 (Date of acquisition) and the reporting date.

8. 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) The consolidated entity executed an offset agreement in relation to an overseas defence contract for an amount of US$16,133,925 (A$23,412,121) 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$6,453,570 (A$9,364,849) and a fixed and floating charge over the assets of the consolidated entity.

c) The consolidated entity maintains a performance bond for US$31,635,147 (A$45,906,120) in relation to an overseas defence sector contract. The performance bond is guaranteed by Export Finance Australia (EFA) under a Bond Facility Agreement and is secured by a cash security deposit of US$14,235,813 (A$20,657,749) and a fixed and floating charge over the assets of the consolidated entity.

d) During the six-month period ended 30 June 2022, the consolidated entity breached certain covenants associated with its EFA Facility Agreement. Under this agreement, EOS is required to maintain a minimum tangible net worth of $225M (30 June 2022 actual: $195 million) and a debt to rolling-twelve-month EBITDA ratio of 1.75 (30 June 2022 actual: (0.82)). As the consolidated entity was in breach of both of these covenants at 30 June 2022, EFA is able to call the guarantees in b) and c) above. As of the date of this report, EFA has not exercised its right to call the guarantees and, while the consolidated entity is involved in discussions to seek a waiver, EFA has not formally waived its right. There was no impact on the consolidated statement of financial position or statement of profit or loss and other comprehensive income as a result of this breach.

8. Contingent Liabilities and Commitments (cont)

e) The secured borrowing $34,833,022 of with RNC Nominees Pty Ltd (RNC) includes a financial covenant that required the consolidated entity to have a total cash balance of $55m from 5 June 2022 (i.e., 90 days prior to the Maturity Date). As the consolidated entity's cash balance was below this level, the covenant was breached. This constitutes a review event under the agreement. RNC has not triggered the review event at the date of this report. If it is triggered, then the consolidated entity is required to consult with RNC for 30 days in good faith to agree on the course of action to remedy the default. Should no resolution be reached, the entire loan amount shall become due and payable 60 days after the end of the consultation period.

f) The consolidated entity maintains a performance bond for US$4,000,000 (A$5,804,445) in relation to a spectrum licence granted by the US Federal Communications Commission (FCC). This bond is established through a surety bond with RLI Insurance Company, fully secured by a cash security deposit. This bond was fully impaired at 30 June 2022. See note 3.

g) The consolidated entity maintains cash deposits with banks and financial institutions as security for various performance and rental bonds. The detail of such cash deposits is as per below

	30 June 2022 $	31 December 2021 $
Offset bond for a defence contract - See note 8(b)	9,364,849	4,443,916
Performance bond for a defence contract - See Note 8(c)	20,657,749	17,427,116
Performance bond for SpaceLink's satellite launch – See Note 8(f)	-	5,054,310
Rental bonds	1,275,629	1,215,417
	31,298,227	**28,140,759**

h) 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.

i) Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, entered 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 would 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 also entered 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 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.

8. Contingent Liabilities and Commitments (cont)

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 holds no direct equity in AEI Air (Holdings) Limited at the date of this report.
Subsequent to 30 June 2022 Electro Optic Systems Pty Ltd and AEI Air (Holdings) Limited entered into a settlement deed in relation to this arrangement. Refer note 11 for details.

9. Segment Information

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

Change in segments

In September 2021, EOS changed the structure of its internal organisation and reporting lines in a manner that caused the composition of its reportable segments to change. EOS identifies its operating segments based on internal reports reviewed and used by EOS' chief operating decision maker (the CEO) to determine business performance and resource allocation. Operating segments are aggregated after considering the nature of the products and services, nature of production processes, type of customer and distribution methods. As a result, the former Communications Systems and Space Systems segments were merged to form an enlarged Space Systems segment under unified management.

As a result, the consolidated entity's reportable segments are now Defence Systems and Space Systems:

Space Systems

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

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

9. Segment Information (cont)

Defence Systems

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

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

Prior year comparatives have been restated to reflect the change in reportable segments.

	Revenue (including other revenue)		Segment profit/ (loss)	
	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $	Half-year to 30 June 2022 $	Half-year to 30 June 2021 $
Space	14,639,651	14,662,852	(75,941,992)	(9,821,532)
Defence	40,367,230	83,632,159	(25,694,799)	5,614,329
Total of all segments	55,006,881	98,295,011	(101,636,791)	(4,207,203)
Unallocated	1,307	14,718	(3,888,863)	(4,606,179)
Consolidated segment revenue and (Loss) before tax	55,008,188	98,309,729	(105,525,654)	(8,813,382)
Income tax benefit/ (expense)	-	-	6,580,001	(2,913,825)
Consolidated segment revenue and (loss) for the period	55,008,188	98,309,729	(98,945,653)	(11,727,207)

The revenue reported above represents revenue generated from external customers. There were intersegment sales of $24,000 (2021: $995,341) during the period. There were no discontinued operations during the period.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, investment revenue and finance costs and income tax benefit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

9. Segment Information (cont)

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	Assets		**Liabilities**	
	30 June 2022 $	**31 December 2021 $**	**30 June 2022 $**	**31 December 2021 $**
Space	72,739,536	66,235,871	60,705,656	33,852,122
Defence	272,315,816	304,454,687	97,341,316	95,084,000
Total segment assets/liabilities	345,055,352	370,690,558	158,046,972	128,936,122
Unallocated cash and security deposit	45,141,661	87,401,414	-	-
Total	390,197,013	458,091,972	158,046,972	128,936,122

10. Issuance of Securities

2022

No securities were issued during the period.

No options were exercised during the period.

Issued capital as at 30 June 2022 was $413,727,547.

2021

On 15 March 2021, the Company issued 1,185,000 new ordinary shares at $5.27 each under the Loan Funded Share Plan.

On 31 May 2021, the Company issued 150,000 new ordinary shares at $4.06 to a Director under the Loan Funded Share Plan.

On 15 March 2021, the Company issued 475,000 unlisted options at an exercise price of $5.27 to employees expiring on 16 March 2026 under the Employee Share Option Plan.

No options were exercised during the period.

Issued capital as at 30 June 2021 was $413,727,547.

11. Subsequent events

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

On 13 July 2022 the Company announced the appointment of Mr Clive Cuthell as Chief Finance Officer. Mr Cuthell commenced on 5 September 2022.

On 21 July 2022 the Company announced the appointment of Dr Andreas Schwer as Chief Executive Officer effective 1 August 2022.

On 27 July 2022 the Company received the net proceeds of $202,500 from the placement of 168,737 fully paid ordinary shares at $1.20 per share.

On 13 July 2022 Electro Optic Systems Pty Ltd and AEI Air (Holdings) (AEI) Limited entered into a settlement deed and release agreement wherein it was agreed that AEI would compensate EOS an amount of £1,642,289 for:

- the principal amount of the convertible notes of £1,500,000 referred to in note 8(i) above,
- interest of £134,817, and
- payment for ammunition used by AEI to date of £7,472.

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

AEI therefore ceased being an associate of the consolidated entity on this date.

Between 29 July and 2 August 2022 EOS received an amount of £1,615,355,60 representing the full settlement amount above less withholding tax of £26,963.40 (20% of the interest amount).

On 16 August 2022 the consolidated entity made a top up of US$823,150 (A$1,155,792) to the cash security held in relation to the offset bond referred to in note 8(b) above. On the same date, it also made a top up of US$1,614,030 (A$2,266,260) to the cash security held in relation to the performance bond referred to in note 8(c) above. Both top-ups were required due to an overall increase in the relevant revenue contract value.

On 6 September 2022 the Company entered into binding agreements with a new financier for a 12-month working capital facility and a short-term refinancing of the $35m debt facility that matured on 6 September 2022. Details on key terms can be found in note 1c to the financial statements. In addition to the information included in note 1c, there are a number of representations, financial covenants and general undertakings. These include:

1. Restriction on disposals of assets subject to agreed exceptions
2. Restriction on mergers and acquisitions
3. No change in business
4. Financial covenants assessed on a monthly basis including asset coverage ratio, cash inflow ratio and a cash outflow ratio.

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

12. Related party transactions

During the period, the Company paid a total of $35,000 (six-month period ended 30 June 2021 - $35,000) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors' fees and superannuation for Mr Geoff Brown.

During the period, the Company paid a total of $35,000 (six-month period ended 30 June 2021 - $Nil) to Technology Innovation Partners Pty Ltd, a company associated with Ms Kate Lundy in respect of directors' fees and superannuation for Ms Kate Lundy.

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

13. Details of entities over which control has been gained or lost over the period

Nil.

14. Details of Associates and Joint venture entities

Name of Entity:	AEI Air (Holdings) Limited
Deemed percentage holding:	At 30 June 2022 the consolidated entity held unsecured convertible notes, which were 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 any share in any profit (losses). Refer to the Subsequent event note 11 for an update on the entity.

Information on Audit or Review

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

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

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

Not applicable

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

Not applicable