

ACTIVITY STATEMENT FOR THE QUARTER ENDING 30 JUNE 2022

Canberra, 29 July 2022

1. OVERVIEW

During the quarter ending 30 June 2022 the company produced net cash of \$3.489 million from operating activities. At 30 June 2022 EOS held \$13.844 million in total available cash.

2. STRATEGIC REVIEW UPDATE

A detailed update on the status of the strategic review has been released by the Company today.

As announced on 21 July 2022 Dr Andreas Schwer will assume the position of Chief Executive Officer effective 1 August 2022. Dr Schwer will immediately undertake a transformation process to implement the strategic review findings. This will include, inter alia, an organisational restructure to right size the cost base for a more focused strategy.

3. COMPANY CASH

In Q2 2022 EOS produced net cash of \$3.489 million from operating activities. At 30 June 2022 EOS held \$13.844 million in total available cash.

On 29 June 2022 the Company announced a successful placement of 12,500,000 fully paid ordinary shares raising \$15.0 million. The net proceeds of \$14.4 million from this placement were received in early-July and hence are not included in the 30 June cash balance.

On 5 July 2022 the Company announced a Share Purchase Plan for existing holders which closed on 19 July 2022. The Plan resulted in the placement of a further 168,737 fully paid ordinary shares raising \$202,500. The net proceeds of \$202,500 from this placement were received mid-July and are not included in the 30 June cash balance.

The Company is advanced in negotiations with established providers of capital that it is expected will satisfy the near-term needs of the business. These needs include the funds required to implement the proposed business transformation initiatives arising from the strategic review.

4. CORPORATE MATTERS

Payments to related parties of the entity and their associates totalled \$290,914 for the quarter. These amounts include \$178,490 in salary and other benefits to the CEO and \$112,424 paid in directors' fees and superannuation to directors and entities associated with non-executive directors during the quarter.

5. DEFENCE SYSTEMS

Key milestones in Defence Systems in Q2 2022:

- Live fire demonstration and development of the remote weapon system (RWS) family in both the US and Australia.

- Ongoing support to NATO for R400 equipped UGVs (uninhabited ground vehicles) that are planned to be deployed to Lithuania as part of the NATO trigger forces.
- Following initial selection as a sovereign partner for the Commonwealth's GWEO, the Sovereign Missile Alliance (an EOS joint venture with Nova Systems) continue to engage in program discussions with the Commonwealth.
- Production has included an increasingly large proportion of spare parts, as the number of deployed systems exceeds 2,000 units.
- Directed energy tests against flying drones have been successfully conducted.
- There is engagement with organisations in the USA, certain NATO countries and Ukraine directly to explore the potential provision of EOS systems to Ukraine.
- Work on supply chain resilience continues. Unexpected challenges have arisen in developing and qualifying an Australian supply chain to manufacture sub-systems of the RWS normally sourced from US suppliers. This is creating some delays in Commonwealth programs.
- No major EOS pipeline contracts were awarded in Q2 2022, to EOS or any competitor. Conversion of pipeline opportunities to backlog orders continues to lag.

6. SPACE SYSTEMS

Key milestones in Space Systems, excluding SpaceLink, in Q2 2022:

- Performance under space data delivery contracts and pre-contract test exercises has met expectations.
- All contracts for physical deliverables and development contracts are on track.
- EM Solutions released its Cobra IIS terminal, developed to meet specific, contracted customer requirements.
- Space Systems, excluding SpaceLink is on track to improve profitability in 2022.

Whilst market soundings validated the unique commercial proposition of SpaceLink, the focus of the Board will be on the Defence and Space Technologies businesses.

Accordingly, capital will be prioritised to these areas and the Board will continue to explore partnership and divestment options for SpaceLink. Funds into SpaceLink will only be allocated to optimise its value in pursuit of those outcomes.

7. SUBSEQUENT EVENTS

As noted above, on 4 July 2022 the Company received the net proceeds from the placement of 12,500,000 fully paid ordinary shares being \$14.4 million.

On 13 July 2022 the Company announced the appointment of Mr Clive Cuthell as Chief Finance Officer. Mr Cuthell will commence 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 from the placement of 168,737 fully paid ordinary shares being \$202,500.

Mr Rowan Gilmour will leave the Company effective 29 July 2022, vacating the Deputy CEO role.

This announcement has been authorised for release to the ASX by the Board of Directors.

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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 are next-generation remote weapon systems, vehicle turrets, counter-UAS and C4 systems.
- Space Systems includes all EOS space and communications businesses, and operates as three entities – SpaceLink, EM Solutions and Space Technologies. SpaceLink is developing a constellation of Medium Earth Orbit satellites to create the communications superhighway for the space economy. EM Solutions provides global satellite communications services and systems. Space Technologies specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space and remains integral to research and development across the group.

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

95 092 708 364

Quarter ended ("current quarter")

30 June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	41,602	74,433
1.2 Payments for		
(a) research and development	(3,194)	(8,610)
(b) product manufacturing and operating costs	(8,621)	(32,390)
(c) advertising and marketing	(813)	(1,293)
(d) leased assets	-	-
(e) staff costs	(16,087)	(29,122)
(f) administration and corporate costs	(6,842)	(15,550)
1.3 Dividends received	-	-
1.4 Interest received	5	7
1.5 Interest and other costs of finance paid	(2,279)	(4,508)
1.6 Income taxes paid	(335)	(889)
1.7 Government grants and tax incentives	44	108
1.8 Other (provide details if material)	9	50
1.9 Net cash from / (used in) operating activities	3,489	(17,764)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(185)	(185)
(c) property, plant and equipment	(12,742)	(16,065)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Security deposits	-	(6,682)
2.6	Net cash from / (used in) investing activities	(12,927)	(22,932)

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	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(1,282)	(2,559)
3.10	Net cash from / (used in) financing activities	(1,282)	(2,559)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	28,138	59,261
4.2	Net cash from / (used in) operating activities (item 1.9 above)	3,489	(17,764)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(12,927)	(22,932)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,282)	(2,559)
4.5	Effect of movement in exchange rates on cash held	(3,574)	(2,162)
4.6	Cash and cash equivalents at end of period	13,844	13,844

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	13,844	28,138
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)	13,844	28,138
Note	Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees	37,103	33,720

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	291
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

The amount included in Item 6.1 includes \$178,490 in salary and other benefits paid to the CEO and \$112,424 paid in directors fees and superannuation to directors and entities associated with non-executive directors during the quarter.

7.	Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	35,000	35,000
7.2	Credit standby arrangements	-	-
7.3	Other – Export Finance Australia	73,188	69,318
7.4	Total financing facilities	108,188	104,318
7.5	Unused financing facilities available at quarter end		3,870
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	<p>Loan facility: On 27 August 2021, the consolidated entity established an A\$35 million working capital facility with RNC Nominees Pty Ltd. The facility has a 1-year term and carries interest of 9% per annum. The loan is secured by a general security deed which ranks <i>pari passu</i> with the Export Finance Australia facility below. Interest paid on the loan is included in Item 1.5. The loan expires on 5 September 2022.</p> <p>Export Finance Australia facility:</p> <p>1. 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 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. The costs of this facility are included in Item 1.5 as other costs of finance paid.</p> <p>2. 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. 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)	3,489
8.2	Cash and cash equivalents at quarter end (item 4.6)	13,844
8.3	Unused finance facilities available at quarter end (item 7.5)	3,870
8.4	Total available funding (item 8.2 + item 8.3)	17,714
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	

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

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

Answer: N/A

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

Answer: N/A

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

Answer: N/A

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

Compliance statement

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

Date: 29 July 2022

Authorised by the Board

Notes

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