



ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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ACTIVITY STATEMENT FOR THE QUARTER ENDING 31 MARCH 2022

Canberra, 29 April 2022

1. OVERVIEW

Global geopolitical tensions continue to escalate causing the defence outlays and forward budgets of many governments to increase significantly.

Since Russia invaded Ukraine on 24 February 2022 EOS has seen a sharp increase in enquiries from existing NATO customers as well as other allies. We expect a number of these opportunities to translate into orders through 2022 and beyond.

2. STRATEGIC REVIEW

EOS has been executing a strategy of maximising future profit, diversification, resilience and shareholder value by investing current profits in growth business, including SpaceLink.

SpaceLink requires US\$250million of capital, and other growth opportunities in EOS present additional demands on capital and resources. On 17 March 2022 EOS announced that it had appointed Greenhill & Co. as adviser to assist the company to undertake a strategic review to assess options to maximise shareholder value from its portfolio of growth businesses.

Considerable progress has been made with the review and the Company hopes to update shareholders at or before the Company's Annual General Meeting to be held on 27 May 2022.

3. COMPANY CASH

In Q1 2022, EOS used net cash in operating activities of \$21.2 million. This outcome was delivered after spending \$5.4 million on Research & Development activities during the quarter.

At 31 March 2022 EOS held \$28.1 million in total available cash. This was supplemented on 1 April 2022 by \$29.6 million cash received from an export customer. As previously advised to the market this contract performance and payment has normalised following COVID-19 disruptions, and EOS continues to deliver remote weapons systems in accordance with the contract delivery schedule.

4. CORPORATE MATTERS

Related Party Transactions

Payments to related parties of the entity and their associates totalled \$305,262 for the quarter. These amounts include \$208,238 in salary and other benefits to the CEO and \$97,026 paid in directors' fees and superannuation to directors and entities associated with non-executive directors during the quarter.

5. DEFENCE SYSTEMS

The Defence Systems division consists of four product groups namely Weapons, CUAS and DE, C4 and Missile systems.

In this quarter, the operational highlights were:

- Live fire CUAS demonstration of both the R400 and R800 was conducted for the US Army.
- Introduction into service training and support for robotic combat vehicles in two countries was conducted.
- EOS undertook six weeks of testing of its Directed Energy system at a range in Southern New South Wales. This testing was also coupled with live drone engagement demonstrations to the military representatives of six customer nations. The results were above expectations in both target impact and system reliability.
- EOS Defence was engaged in supporting the preparation of existing RWS for activities related to the hostilities in the Ukraine for a number of existing users.
- The Sovereign Missile Alliance, a joint venture between EOS and Nova Systems, was selected as sovereign partner for the Commonwealth's Guided Weapons and Explosive Ordnance Enterprise. Detailed discussions with Defence on the next steps in this process are on-going.
- Typically, the first quarter has the lowest level of production due to summer holidays and reduced rostering. Despite a temporary surge in COVID-19 cases in the first several weeks of January 2022, production was not materially affected.

6. SPACE SYSTEMS

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

In this quarter the key developments have been:

EM Solutions

- The Commonwealth announced that it intends to sole-source SATCOM terminals to EM Solutions under the forthcoming SEA1442 Phase 5 program.
- New orders were received from two European navies for the world-leading 2m Fleet terminal, now representing more than 18 months' backlog for this product.
- Repeat orders for specialised electronics manufacturing services were received from several Australian and international clients.
- The production facility is being expanded to increase capacity in response to the strong order book.

Space Technologies

- Developed new sensor technologies which enable EOS to maintain its best-in-class ground based optical space surveillance capability.
- Awarded a contract from the US Space Force JCO for the supply of Space Domain Awareness services to the US government. EOS is the first non-US company to be awarded such a contract.

SpaceLink

SpaceLink is a wholly owned EOS subsidiary that is developing a new form of satellite communication that offers more bandwidth, higher resilience and faster point-to-point communications than any prior approach. SpaceLink continues to engage with potential customers.

On 25 February 2022, EOS announced SpaceLink had achieved a new, smaller, communication satellite design that reduced the cost of initial constellation deployment from US\$750 million to US\$250 million; and advanced the date for initial operational capability from mid-2024 to early-2024, allowing it to meet customers' requirements for earlier services and to secure SpaceLink's extensive communication spectrum licenses by meeting the stipulated Federal Communication Commission (FCC) regulatory milestone date in mid-2024.

EOS announced on 29 March 2022 that it had received conditional support from Export Finance Australia (EFA) for up to US\$80 million of debt funding for the initial satellite communications constellation. EOS is in advanced discussions to secure the balance of funding requirements for the initial SpaceLink constellation initial stage Phase 1/Block 0.

The reduced scale and risk of the project allows EOS to consider retaining a larger equity share in SpaceLink than was previously anticipated.

7. SUBSEQUENT EVENTS

Subsequent to the end of the March quarter, the Company has experienced several material developments in its business and finances.

1. On 1 April 2022, the Company received payment of \$29.6 million from its major foreign customer.
2. On 6 April 2022, the Company announced that the Sovereign Missile Alliance has been selected as a one of three sovereign partners of the Commonwealth's Guided Weapons and Explosive Ordnance Enterprise. As part of the initial \$1 billion program, the Federal Government has selected two foreign suppliers of missiles as supplier partners and three Australian entities as sovereign partners.
3. On 7 April 2022 the Company completed the acquisition of Kiwi Star Optics (KSO) in New Zealand.
4. The Chief Financial Officer, Mr Michael Lock, resigned effective from 14 April 2022. The Company has appointed Deputy Chief Financial Officer, Mr Tahir Khan, to the role of acting CFO ahead of commencing a competitive recruitment process. Mr Khan has previously acted as the Company's CFO for extended periods.

Appendix 4C

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

Name of entity

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ABN

95 092 708 364

Quarter ended ("current quarter")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	32,831	32,831
1.2 Payments for		
(a) research and development	(5,418)	(5,418)
(b) product manufacturing and operating costs	(23,770)	(23,770)
(c) advertising and marketing	(480)	(480)
(d) leased assets	-	-
(e) staff costs	(13,034)	(13,034)
(f) administration and corporate costs	(8,708)	(8,708)
1.3 Dividends received	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(2,228)	(2,228)
1.6 Income taxes paid	(554)	(554)
1.7 Government grants and tax incentives	64	64
1.8 Other (provide details if material)	42	42
1.9 Net cash from / (used in) operating activities	(21,253)	(21,253)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(3,324)	(3,324)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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)	(6,682)
2.6	Net cash from / (used in) investing activities	(10,006)	(10,006)

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	(1,276)	(1,276)
3.10	Net cash from / (used in) financing activities	(1,276)	(1,276)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	59,261	59,261
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(21,253)	(21,253)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(10,006)	(10,006)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,276)	(1,276)
4.5	Effect of movement in exchange rates on cash held	1,412	1,412
4.6	Cash and cash equivalents at end of period	28,138	28,138

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	14,174	41,183
5.2	Call deposits	13,964	18,078
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)	28,138	59,261
Note	Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees	33,720	28,141

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	305
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p>The amount included in Item 6.1 includes \$208,238 in salary and other benefits paid to the CEO and \$97,026 paid in directors fees and superannuation to directors and entities associated with non-executive directors during the quarter.</p>		

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	67,339	63,779
7.4	Total financing facilities	102,339	98,779
7.5	Unused financing facilities available at quarter end		3,560
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.</p> <p>Export Finance Australia facility:</p> <ol style="list-style-type: none"> The consolidated entity maintains a performance bond for US\$31,635,147 (A\$42,237,470) 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\$19,006,857) and a fixed and floating charge over the assets of the consolidated entity. The costs of this facility are included in Item 1.5 as other costs of finance paid. The consolidated entity executed an offset agreement in relation to an overseas defence contract for an amount of US\$16,133,925 (A\$21,541,110) 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\$8,616,444) and a fixed and floating charge over the assets of the consolidated entity. The costs of this facility are included in Item 1.5 as other costs of finance paid. 		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(21,253)
8.2	Cash and cash equivalents at quarter end (item 4.6)	28,138
8.3	Unused finance facilities available at quarter end (item 7.5)	3,560
8.4	Total available funding (item 8.2 + item 8.3)	31,698
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1
	<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: Yes

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: The Group received cash amounting to A\$29.6 million on 1 April 2022 from an overseas customer, providing substantial cash for immediate needs. In addition, as previously announced to the market, the Group is currently undertaking a strategic review.

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: Yes. Based on a strong order pipeline and the strategic review currently being undertaken.

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 April 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.