



Electro Optic Systems Holdings Limited

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ACTIVITY STATEMENT FOR THE QUARTER ENDING 30 JUNE 2021

Canberra, 23 July 2021

The June quarter was active for all EOS divisions. Space Systems continued to advance EOS' intellectual property (IP) base with important technology development whilst simultaneously advancing as a business unit in its own right. Defence Systems received the first payment from the customer under a major overseas contract and formed an important teaming agreement with Diehl Defence. New product development advanced for the Titanis Counter-UAS system, C4 EDGE, and the T2000 turret program. In Communications Systems, EM Solutions and SpaceLink continued to execute against their respective business plans. At a corporate level, the AGM in May saw all five resolutions passed by shareholders. Group CEO, Dr Ben Greene, provided a strong business update and financial guidance for 2021. The Company also bade farewell, with thanks, to long-standing NED Ian Dennis, and appointed EOS Group General Counsel, Morgan Bryant, as the new Joint Company Secretary.

Space Systems develops new laser technology for space debris mitigation¹

EOS Space Systems demonstrated a major breakthrough in laser technology which significantly advances the global effort to mitigate space debris. The innovation involves the use of a Guide Star Laser to allow high speed adaptive optics to form laser beams that can track and move space debris at lower altitudes and faster speeds than ever previously possible. This IP was developed by EOS in collaboration with the Space Environment Research Centre ("SERC"), and will now be commercialised and owned by EOS, with applications including space debris mitigation and high-bandwidth satellite communications.

Space Systems and Palantir Australia partner on space operations exercise

EOS Space Systems partnered with Palantir Australia to participate in the Sprint Advanced Concept Training (SACT), a global space operations training event, led by the US, which took place from 5 – 9 April. EOS Space Systems and Palantir Australia teams co-located for one month to work on combining secure data integration and visualisation of observation data for

¹ See announcement on 9 April 2021 "[Guide Star Laser](#)"

an Australian-based capability for SACT. This demonstration showcased Palantir's Foundry capability and EOS' observation sensor data as an integrated, processed and rendered system for space domain awareness workflows. Palantir provides a Space Command and Control (Space C2) capability to the US Space Force, integrating and modelling enormous amounts of space domain datasets into its modern architecture and disseminating data to operational units to track objects and monitor space traffic.

The EOS Space Systems team were winners for the second year in a row for the group award "Space Business of the Year (Large)" in the 2021 Space Connect, Australian Space Awards held on 4 June 2021.

Defence Systems received first payment from customer on major overseas contract²

Total cash receipts from customers during the June quarter were \$65.5 million, of which \$30 million was payment from the customer on the major overseas contract. From March 2020 to March 2021 EOS increased its investment in its inventory of finished goods to a total of \$138 million to allow production to continue against a firm export order while delivery and payment processes were restored from COVID-19 disruption. This investment preserved the EOS supply chain and maintained EOS' own production processes. EOS continues to produce and deliver against this contract and anticipates further cash receipts of over \$100 million from this business in H2 2021.

EOS Cooperation Agreement with Diehl Defence for European and NATO markets³

EOS and Diehl Defence GmbH & Co KG ("DDK") announced the signing of a Cooperation Agreement to facilitate greater commercial collaboration between the two companies. EOS and Diehl Defence will initially focus collaboration on the area of advanced stabilised and remotely operated weapon systems (RWS) for the European and NATO markets. Diehl Defence is a technology-driven privately owned German defence company with a long tradition and excellent reputation in the European market. EOS RWS technology offers the ability for operators to gain accurate, long-range and wide-area imagery of the battlespace and simultaneously deliver precise target engagement from behind protection, on the move by day and by night. The precision offered by the EOS RWS technology provided to Diehl also allows for best-in-class engagement of drones by direct fire. As part of this Cooperation Agreement a production line for RWS will be established in Diehl's German facilities with the necessary technology transfer such that European defence forces can be optimally served by

² See announcement on 12 May 2021 "[EOS Cash Receipts Accelerate](#)"

³ See announcement on 27 May 2021 "[EOS Teaming Agreement with Diehl Defence for European and NATO markets](#)"

Australian technology, adapted, augmented and produced in Germany. This agreement also facilitates further collaboration on Space and High Power Electro-Magnetics, laser and missile technologies between the two companies. Both companies believe that this collaboration promises a great opportunity for Australian, European and NATO forces to continue their already close relationship.

Defence Systems continues to progress C-UAS, C4 EDGE and the T2000 programs

The Counter-UAS (C-UAS) product was rebranded as Titanis and the Company issued a promotional video⁴ for the launch event held at Land Forces 2021 in Brisbane in June. Speaking at the launch, Justin Olde, Vice President of Business Development, EOS Defence Systems, said, “Titanis represents EOS’ leadership in integrated counter unmanned aerial systems technology. Building on decades of stabilised weapon and laser system development, EOS is excited to publicly release Titanis and its integrated C4ISREW backbone. This includes our 35kW directed energy system which is an essential part of the system’s ability to defeat drone swarms. Titanis is the most flexible and cost effective response to this emerging asymmetric threat.” The system is performing demonstrations in Australia during Q3, with overseas demonstrations scheduled for Q4.

The C4 EDGE Australian sovereign industry consortium led by EOS was extended with the addition of Applied Virtual Simulation (“AVS”) and APC Technology (“APC”) as team members. AVS is a leading provider of simulation-based training technology to the Australian Army. AVS will bring its substantial depth of knowledge on Live Virtual and Constructive simulation integration and interoperability to the C4 EDGE consortium, and will be focusing on how C4 EDGE can be integrated with the army’s current and future training platforms and systems. APC is expected to leverage its experience in the design and manufacture of military specification communication systems, particularly GVA displays.

The T2000 turret has continued customer Risk Mitigation Activity (RMA) trials as part of the Team Redback consortium competing for the Land 400 Phase 3 project. Redback, the world’s most advanced Infantry Fighting Vehicle demonstrated its capability in a series of tests including the live fire of SPIKE LR2 anti-tank guided missile (ATGM) and the Iron Fist active protection system (APS). The RMA activity is expected to conclude in November with a contract award determined in Q2 2022.

⁴ See news release and video [here](#)

Communications Systems EM Solutions achieves record results

For the first half of 2021, EM Solutions booked record revenues of \$13.8 million (H1 2020: \$8.0 million) and record EBIT. The order backlog remains strong representing more than 12 months' work in hand. During the quarter, the EM Solutions team in The Netherlands, supported remotely by staff in Australia, successfully fitted the first of ten Cobra antenna systems to a European Navy vessel, with the balance of the order to be completed in coming months. Despite challenging supply chain headwinds, EM Solutions has almost completed deliveries of a large order of radio systems for a major US Government customer and an Australian customer. New product development continues largely to schedule with new prototype products under construction during the coming quarter.

SpaceLink “Communications Superhighway” advancing on all fronts

The SpaceLink business model continues to evolve favourably towards its mission of becoming the “Communications Superhighway for the New Space Economy”. The process of selecting a satellite manufacturer for building the first constellation of four satellites moved from “Request For Information” stage to “Request For Proposal” stage. SpaceLink expects to complete and award a contract in Q3.

In May SpaceLink agreed on a partnership with Mynaric to expand Mynaric's laser communication product portfolio for use in SpaceLink's data relay network. The companies will work together to expand Mynaric's product portfolio with an optical inter-satellite link (OISL) terminal for satellites in Medium Earth Orbit (MEO), where the SpaceLink constellation will operate. The new terminal will also be compatible with the Space Development Agency (SDA) Transport Layer. Mynaric will supply more than 40 OISL terminals as part of the plan.

As part of its ongoing regulatory engagement program, SpaceLink joined the International Telecommunication Union (ITU) as a member of the Radio Communication Sector (ITU-R). The ITU-R is responsible for equitable and efficient use of the radio-frequency spectrum. As a member, the company joins hundreds of industry leaders in shaping spectrum policy. The ITU was founded by the United Nations in 1965 and is committed to connecting all the world's people – and protecting and supporting everyone's right to communicate.

SpaceLink also joined the United States Geospatial Intelligence Foundation (USGIF) in support of its mission to promote geospatial intelligence (GEOINT) as a tradecraft and develop a stronger GEOINT community. The SpaceLink relay satellite network will help commercial data providers deliver their GEOINT faster to the people who need it when seconds matter. SpaceLink service will speed the flow of remote sensing data for critical missions, including disaster support and tactical military operations, and it is designed to augment national security space architecture as needed.

On the sales front the team continued negotiations with both commercial and government prospective customers to convert the substantial sales pipeline into bankable customer commitments. This included being invited by the Centre for the Advancement of Science in Space (CASIS) to submit a proposal for an end-to-end communications services demonstration on the International Space Station.

Funding discussions are progressing with both debt and equity financiers and remain on track for a Q3 funding announcement.

AGM and 2021 Financial Guidance⁵

EOS held its Annual General Meeting during the quarter. All five Ordinary Resolutions requiring a vote contained in the Notice of Annual General Meeting were put to the shareholders and were approved on a poll.

Group CEO, Dr Ben Greene, provided a business update and issued 2021 Financial Guidance. The growth outlook for the company is exceptionally strong as it is facing what Dr Greene described as a “demand tsunami on the horizon”. EOS is well positioned in the fastest growing defence market segments: Counter-UAS, directed energy and remotely operated combat systems. Space sector growth, both commercial and defence, indicates a demand surge for space products and services. Furthermore, Australia’s \$1 trillion defence budget for 2021-2030 combines with unprecedented focus on Australian providers, and EOS is one of only two or three candidates to qualify as a defence prime contractor in Australia. The Company has also invested heavily in its Huntsville, Alabama US manufacturing base to serve our key ally, the United States, address the world’s largest defence market and drive economies of scale for global technology and cost competitiveness.

Financial guidance was provided on the basis that market conditions do not materially change, adversely impacting operations, and noting that considerable uncertainty continues in relation to the potential impacts of COVID-19, especially the new Delta variant. EOS also noted the potential for material contract awards (>\$1 billion worth) in H2 2021, for which negotiations are currently underway.

The key highlights of the guidance were;

- Order backlog of executed orders at 27 May was \$428 million in revenue terms, and \$535 million in cash flow.
- Cash receipts are expected to be strong as contract assets convert to cash, in a reversal of 2020 cash deployment.

⁵ See announcement on 28 May 2021 “[AGM Presentation and 2021 Financial Guidance](#)”

- Revenue is expected to increase in 2021 to \$235-245 million, representing revenue growth of >30% (2020: 8%). This is a key growth target as it funds mandatory corporate compliance processes for the next stage of managed growth.
- Underlying EBIT before SpaceLink costs expected to be \$20-25 million. EBIT after SpaceLink costs currently expected to be \$3-8 million after expenses of \$17 million for SpaceLink.

Payments to Related Parties

Payments to related parties and their associates were \$342,821 in the quarter (see Item 6.1), which includes \$172,154 in salary and other benefits to the CEO, consulting fees paid to non-executive directors / the co-company secretary of \$54,000 and \$116,667 paid in directors' fees and superannuation to directors and entities associated with non-executive directors.

Director Ian Dennis retired from the Board⁶

Effective from the AGM, Non-Executive Director Ian Dennis retired from the Board after more than 20 years' service. He was appointed to the EOS Board on 8 May 2000 as an independent Non-Executive Director and served as a member of both the Audit and Risk Committee and the Nominations and Remuneration Committee. He also served as Company Secretary of Electro Optic Systems Holdings Limited. Ian agreed to remain as Joint Company Secretary for a short period to enable a smooth transition to the newly appointed Joint Company Secretary, Morgan Bryant. EOS thanked Ian for his great contribution to the company and shareholders, and wished him well in his retirement and other future endeavours. Due to the change in Company Secretary the registered office of EOS changed to the Company's operational headquarters in Symonston ACT.

This announcement has been authorised for release to ASX by Dr Ben Greene, Director.

Further information:

Ben Greene
Group CEO

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⁶ See announcement 28 May 2021 "[Ian Dennis Retires from EOS Board of Directors and Appointment of new Joint Company Secretary](#)"

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 2021

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	65,545	116,982
1.2 Payments for		
(a) research and development	(3,381)	(6,890)
(b) product manufacturing and operating costs	(29,367)	(65,148)
(c) advertising and marketing	(322)	(877)
(d) leased assets	-	-
(e) staff costs	(13,936)	(25,493)
(f) administration and corporate costs	(4,285)	(11,282)
1.3 Dividends received	-	-
1.4 Interest received	236	296
1.5 Interest and other costs of finance paid	(1,161)	(2,230)
1.6 Income taxes paid	3,878	(785)
1.7 Government grants and tax incentives	61	84
1.8 Other (provide details if material)	58	109
1.9 Net cash from / (used in) operating activities	17,326	4,766
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(6,155)	(8,970)
(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	(69)	(8,354)
2.6	Net cash from / (used in) investing activities	(6,224)	(17,324)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	150	249
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(1,512)	(2,322)
3.10	Net cash from / (used in) financing activities	(1,362)	(2,073)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	41,490	65,933
4.2	Net cash from / (used in) operating activities (item 1.9 above)	17,326	4,766
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,224)	(17,324)

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)	(1,362)	(2,073)
4.5	Effect of movement in exchange rates on cash held	(112)	(184)
4.6	Cash and cash equivalents at end of period	51,118	51,118

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	36,671	13,225
5.2	Call deposits	14,447	28,265
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)	51,118	41,490
Note	Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees	25,680	25,350

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	343
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p>The amounts included in Item 6.1 includes \$172,154 in salary and other benefits to the CEO. Consulting fees paid to non-executive directors / the co-company secretary of \$54,000 and \$116,667 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	-	-
7.2 Credit standby arrangements	-	-
7.3 Other – Export Finance Australia	63,641	63,641
7.4 Total financing facilities	63,641	63,641
7.5 Unused financing facilities available at quarter end		-
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>1. The consolidated entity provided a performance bond in respect of a contract in the Defence sector for US\$31,635,147 (A\$42,146,085) in relation to an overseas defence sector contract. The performance bond was provided by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of A\$16,858,429 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. Under the terms of a contract in the Defence sector, the consolidated entity has signed an offset agreement with the relevant overseas Government Authority on 12 February 2021 for an amount of US\$16,133,925 (A\$21,494,504). The offset bond was provided by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of A\$4,298,901 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)	17,326
8.2 Cash and cash equivalents at quarter end (item 4.6)	51,118
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	51,118
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: 23 July 2021

Authorised by the Board

(Name of body or officer authorising release – see note 4)

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.