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**30 October 2020**

## ACTIVITY STATEMENT FOR THE QUARTER ENDING 30 SEPTEMBER 2020

The September quarter saw progress on all fronts of EOS's business, despite the on-going disruption to business caused by COVID-19. The major overseas contract delivery process resumed, contract negotiations with the Commonwealth of Australia were successfully completed and new products were released.

### Delivery of Major EOS Overseas Contract Resumed

In March 2020 COVID-19 caused the EOS delivery process, in a major export market, to break down in multiple places: freight access, Australian delivery team access, local factory shutdown, customer test facility access, and closure of customer delivery sites. All of these disruptions were resolved in September 2020 and a team of EOS engineers from Australia has since resumed pre-delivery testing for EOS products at the customer's firing range. All links of the delivery chain have now been restored and the delivery process will resume as those links are connected over the next weeks by product flowing along the chain.

In April 2020 EOS raised funds to allow its production capacity to continue to build inventory for later delivery, when the delivery chain was restored. This inventory investment has now peaked, as planned, at AU$150 million. This is over AU$100 million above normal inventory holdings, and this investment in excess inventory will be unwound back to cash by Q2 2021 as forecast in April 2020.

The recent testing was particularly rigorous and extensive because the testing process and equipment had been idle for six months. This testing, executed to international standards and extending over four weeks, has again confirmed the R400 Dual Remote Weapon Systems ("RWS") as the market leader in range and precision for any stabilised weapon platform utilising 30x113mm cannon. The test data, taken during both day and night testing at ranges exceeding 2000m, extends the performance advantage of EOS in this market.

This confirmation supports an accelerated delivery of EOS RWS against an existing contract and opens the way for additional sales.

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**Space Systems Awarded AU$5.1 Million Commonwealth Space Contract**

EOS Space Systems was awarded an AU$5.1 million contract by the Australian Department of Defence for technical development. The contract commenced in Q4 2020 and will run for two years.

**AU$4.25 Million RWS Contract for European Remotely Operated Combat Vehicle Program**

EOS Defence Systems secured two contracts totalling AU$4.25 million for the supply of R400 RWS to a European NATO country. A number of these systems are optimised for integration onto Remotely Operated Combat Vehicles ("ROCV's") and include the remote control units to operate the systems. Both contracts will be delivered this calendar year. EOS RWS products are well suited to the emerging market for ROCV's because of their market leading accuracy, reliability and light weight. The Company is participating in a number of tender opportunities for ROCV capabilities across multiple countries with a sales pipeline in excess of AU$1 billion.

**US Production of RWS Commences**

EOS Defence Systems US commenced production at the Huntsville Alabama plant during the quarter. The first complete units began shipping in October for existing large and small contracts, including a R400S Mk2D to the US Army to support the United States Army Combat Capabilities Development Command Armaments Center (CCDC-AC) Joint Center of Excellence for Lethality at Picatinny Arsenal under a purchase order awarded through the Tailored Logistics Support Program – Special Operational Equipment.

The CCDC-AC chose the R400S Mk2 D (R400) four axis RWS for further capability analysis. The R400S Mk2 D weighs less than 1000lbs and the system is widely known for its light weight, precision, platform versatility and ability to be configured to support multiple weapons. The first round hit probability is provided through an enhanced integrated ballistic solution that analyses weapon and ammunition data, range, and ambient environment in addition to vehicle attitude. Performance is further enhanced with optional video tracking of targets and multi-axis stabilization.

The company also intends to establish initial capabilities in space communication terminals in Huntsville, based on the globally-successful products developed by EOS subsidiary EM Solutions in Brisbane. Business development activity and the sales pipeline for the US business continues to develop largely in line with management expectations.

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**EOS Releases New "Mopoke" Counter Drone Product**

During the quarter EOS released the world's first full-spectrum system for defence against attack from unattended aerial system (UAS) or drones. This counter-UAS system (CUAS) is named Mopoke after the native Australian bird of prey[1]. CUAS are entirely defensive systems.

Industry market surveys and forecasts estimate the Total Addressable Market globally for CUAS products to be US$48 billion (average of five independent market surveys) for the decade ending 2030. EOS estimates the CUAS market amongst its usual customers is around US$21 billion over the same decade. This is consistent with the global market estimates.

Following an international tender process, EOS has recently been down selected as the preferred provider for a major international CUAS requirement, and contract negotiations with that customer have commenced. The company expects these to be concluded for the first phase of this contract over the next six months. Five additional customers have initiated discussions with EOS about this important defensive technology.

**2020 Full Year Guidance Maintained**

EOS maintains the existing FY2020 profit guidance and notes that the risk-weighted pipeline remains strong at AU$3 billion with the order backlog unchanged. The outlook for FY2021 is for strengthening growth as activity deferred from FY2020 is caught up, backlog is processed and pipeline awards are made. EOS has an unrestricted cash balance of AU$79.4 million as at 30 September 2020.

[1] https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02278489-2A1248705?access_token=83ff96335c2d45a094df02a206a39ff4

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

Further information:

Ben Greene
Group CEO

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# Appendix 4C

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

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**Name of entity**

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

| **ABN** | **Quarter ended ("current quarter")** |
|---|---|
| 95 092 708 364 | 30 SEPTEMBER 2020 |

| **Consolidated statement of cash flows** | | **Current quarter $A'000** | **Year to date (9.months) $A'000** |
|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | |
| 1.1 | Receipts from customers | 13,781 | 61,698 |
| 1.2 | Payments for | | |
| | (a) research and development | (5,447) | (7,652) |
| | (b) product manufacturing and operating costs | (38,250) | (104,446) |
| | (c) advertising and marketing | (729) | (1,478) |
| | (d) leased assets | - | - |
| | (e) staff costs | (9,212) | (32,485) |
| | (f) administration and corporate costs | 61 | (13,474) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest received | 95 | 487 |
| 1.5 | Interest and other costs of finance paid | (2,489) | (2,961) |
| 1.6 | Income taxes paid | (176) | (10,462) |
| 1.7 | Government grants and tax incentives | 2,231 | 4,473 |
| 1.8 | Other (provide details if material) | 203 | 446 |
| **1.9** | **Net cash from / (used in) operating activities** | **(39,932)** | **(105,854)** |

| **2.** | **Cash flows from investing activities** | | |
|---|---|---|---|
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | (10,330) | (16,913) |
| | (d) investments | - | - |
| | (e) intellectual property | (5,167) | (5,167) |
| | (f) other non-current assets | 11,009 | - |

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| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (9.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 | (3,604) | (7,258) |
| **2.6** | **Net cash from / (used in) investing activities** | **(8,092)** | **(29,338)** |

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 198 | 138,760 |
| 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 | (855) | (2,376) |
| **3.10** | **Net cash from / (used in) financing activities** | **(657)** | **136,384** |

| | | | |
|---|---|---|---|
| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at beginning of period | 128,136 | 77,881 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (39,932) | (105,854) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (8,092) | (29,338) |

| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (9.months) $A'000 |
|---|---|---|---|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (657) | 136,384 |
| 4.5 | Effect of movement in exchange rates on cash held | (38) | 344 |
| **4.6** | **Cash and cash equivalents at end of period** | **79,417** | **79,417** |

| 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 | 5,033 | 8,038 |
| 5.2 | Call deposits | 74,384 | 120,098 |
| 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)** | **79,417** | **128,136** |
| **Note** | **Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees** | **17,935** | **14,331** |

| 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 | 360 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

The amounts included in Item 6.1 includes $200,846 in salary and other benefits to the CEO. Consulting fees paid to non-executive directors of $54,000 and $105,000 paid in directors fees and superannuation to directors and entities associated with non-executive directors during the quarter.

**Explanatory Note for 1.1**

In line with previously released guidance that EOS would increase production for contracts already executed, inventory has significantly increased during the last nine months. This increase will start to run down in Q4 2020 as the company converts inventory to revenue and cash in accordance with the achievement of milestones in the contracts.

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**Explanatory Note for 1.2(f) and 1.5**

During the quarter, the other costs of finance paid of $2,195,149 for the nine month period in relation to performance bonds noted in Item 7.6 were separated out of administration and corporate costs to better reflect their allocation. This resulted in a positive figure for administration and corporate costs for the quarter of $61,000.

**Explanatory Note for 2.1**

In the previous Appendix 4C for the quarter ended 30 June 2020, an amount of $11,009,000 was shown as cash outflows for other non-current assets (Item 2.1(f)). This amount was reclassified into property, plant and equipment (Item 2.1(c)), intellectual property (Item 2.1(e)) and security deposits (Item 2.5) in the final half year financial statements for 30 June 2020. These reclassifications have been reflected in the current quarter through the reversal of $11,009,000.

| 7. | **Financing facilities**<br>*Note: the term "facility' includes all forms of financing arrangements available to the entity.*<br>*Add notes as necessary for an understanding of the sources of finance available to the entity.* | **Total facility amount at quarter end $A'000** | **Amount drawn at quarter end $A'000** |
|---|---|---|---|
| 7.1 | Loan facilities | - | - |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other – Export Finance Australia | 44,307 | 44,307 |
| 7.4 | **Total financing facilities** | 44,307 | 44,307 |

| | | |
|---|---|---|
| 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. | |

The consolidated entity provided a performance bond in respect of a contract in the Defence sector for US$31,635,147 (A$44,306,929) 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$13,292,786 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) | (39,932) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 79,417 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 79,417 |
| 8.5 | **Estimated quarters of funding available (item 8.4 divided by item 8.1)** | 2 |

*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.*

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: 30 October 2020

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.

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