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ACTIVITY STATEMENT FOR THE QUARTER ENDING 30 SEPTEMBER 2021

Canberra 27 October 2021

1. OVERVIEW

EOS is currently pursuing a number of significant opportunities, many of which are expected to result in contracts being awarded to the successful party over the next 15 months. Management considers that EOS is well placed to win a number of these contracts and in several cases EOS has already been down-selected to a short list of potential awardees.

From 2019 EOS has been preparing to meet this increased program load. Company infrastructure, management, security, quality, compliance, finance, IT and cyber have all been designed and implemented to allow rapid re-scaling for high growth rates in activity and revenue.

Without prudent preparation and investment in foundations for growth, the demands of the new programs could generate unacceptable risk for the company. The business currently has $220 million in revenue, but must carry costs associated with larger scale revenues. It is in this context that management approaches COVID-19 with a special focus on staff support and retention, capacity maintenance, supply chain sustainment and preservation of high growth opportunities.

Despite persistent COVID-19 impacts, excluding discretionary outlays on SpaceLink development ($19 million negative), the business is now trending towards a modest profit result in 2021 of $4 to $8 million (Underlying EBIT before SpaceLink costs[1]). This is despite the recent deferral of Q4 activities causing $11 million of EBIT to move to 2022.

The Company has rebuilt its total cash available to around $100 million, in preparation for growth in its space and defence businesses. This includes a $35 million working capital facility established during the quarter.

The company also continues to invest in the SpaceLink business. In 2021 these expenses will grow to around $19 million. SpaceLink is now moving forward to raise the funds it requires for its initial constellation of satellites from external sources by means of a pre-IPO convertible note in the SpaceLink entity.

2. CORPORATE MATTERS

Board

Mr Fred Bart resigned from the Board of Directors as of 27 July 2021 and Mr Peter Leahy was appointed Chairman.

Divisional Combination

EOS merged the Space Systems and Communications Systems divisions to form an enlarged division with tighter linkages between space and communications activities where greater synergy was required. The new Space Systems is led by Mr Glen Tindall.

[1] The "Underlying EBIT before SpaceLink costs" is calculated after removing the exchange gain/ (loss) amount from Earnings Before Interest and Tax (EBIT) and adding back SpaceLink Inc. expenses.

Dr Craig Smith has moved from leading Space Systems to take up a new role as Group Chief Technology Officer.

Related Party Transactions

Payments to related parties of the entity and their associates totalled $352,013 for the quarter. These amounts include $207,577 in salary and other benefits to the CEO, consulting fees paid to the former co-company secretary of $36,000 and $108,436 paid in directors' fees and superannuation to directors and entities associated with non-executive directors during the quarter.

3. DEFENCE SYSTEMS

The Defence Systems division has been organised into four product groups relating to Weapons, CUAS, C4 and Missile systems.

Weapon Systems

This business is the original remote weapon systems (RWS) business of EOS. It leads the global RWS market with high-end products that are designed to support applications with elevated accuracy and reliability requirements such as autonomous and CUAS systems. This business offers a wide range of RWS and vehicle turrets.

C4 Systems

Military Command, Control, Communications and Computing (C4) systems are fundamental to the effective deployment of any modern defence capability or asset.

CUAS and DE Systems

Counter Uninhabited Aerial Systems (CUAS or "counter-drone") and directed energy (DE) systems are two high growth market segments in the global markets where EOS operates.

The combination of EOS weapon systems and C4 capabilities produces world-leading CUAS capability, built on a backbone of very mature, sophisticated and combat-proven software. The addition of EOS compact, high-power laser technology allows EOS to offer turn-key capabilities over a wide range of drone defence requirements.

Missile Systems

EOS announced the establishment of a 50/50 joint venture named Sovereign Missile Alliance with Nova Systems that aims to participate in the Commonwealth's sovereign guided weapon enterprise. The Commonwealth intends to spend $100 billion on guided weapons by 2040, and EOS has competitive technology for a significant niche of this requirement.

The creation of these four discrete product areas will allow EOS to offer a wider range of specific products, addressing a larger market within the Company's established customer base.

More importantly EOS can now offer its current customers seamlessly integrated and proven combinations of some or all of weapon, C4, missiles and CUAS/DE systems. These complex systems markets are emerging to be significantly more valuable than the individual market segments themselves.

In this quarter the operational highlights were associated with product performance:

- EOS attended annual US multi-vendor demonstrations for kinetic weapon systems. EOS was unmatched in weapon system performance.

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- The EOS T2000 turret was fired for the first time on the Redback infantry fighting vehicle. With only three weeks of turret installation and integration time, reduced substantially by COVID-19, the T2000 met the performance standards expected.
- Product pre-delivery testing of RWS for foreign customers, under existing contracts, continue to demonstrate exceptional performance levels.

4. SPACE SYSTEMS

The Space Systems division now includes all EOS space and communications businesses, and operates as three entities. In this quarter the key developments in these entities have been:

- **SpaceLink**
  - Concluded competitive tender process for the ground segment, space segment, and optical terminal segment for initial constellation of satellites;
  - Awarded contracts to Mynaric, Blue Marble Communications, and SEAKR engineering for key spacecraft subsystem components; and
  - Submitted proposals to NASA for their CSP program.
- **E M Solutions**
  - Strong order intake for the world-leading 2 metre maritime terminal product;
  - Release of a new Antenna Diversity Systems (ADS) product, which allows multiple antenna systems to operate in various combined modes, with certification to support key military satellites; and
  - Revenue, earnings and order backlog at record levels.
- **Space Technologies**
  - Submitted a proposal for construction of the Australian Satellite Manufacturing Hub under the Commonwealth's Modern Manufacturing Initiative program; and
  - International accolades for performance in combined Space Domain Awareness exercises between Australia, the US and other allied nations.

There now appears to be an end in sight to customer delays to the rollout of their requirements, particularly in Space Domain Awareness. The Space Systems division is likely to grow significantly in 2022.

5. SUBSEQUENT EVENTS

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

1. Today the Company received $65 million of cash receipts relating to a major export contract, resulting in total cash at bank in excess of $100 million, including a $35 million working capital facility established during the quarter.

2. Recent impacts from COVID-19 and new outlays require the Company to revise downwards the previous financial guidance[2] by $14 million at the Underlying EBIT

[2] See ASX announcement of 30 August 2021 "Half Year Results Investor Presentation"

level before SpaceLink costs[3]. This revision is primarily driven by the deferral of revenue from two leading defence contracts into 2022.

3. SpaceLink has contracted OHB to manufacture the first constellation of four satellites and the initial tranche of project funding is now underway via a SpaceLink pre-IPO convertible note.

6. COMPANY CASH

In April 2020 EOS raised $134 million of capital with $55 million specifically allocated for expansion of inventory or contract assets, to allow EOS production to be held stable during what was expected to be several quarters of delivery disruption. As COVID-19 evolved and its impact extended into 2021, this investment increased to around $138 million by H1 2021.

In Q1 2021, EOS and its customer began to unwind this investment in contract asset back to EOS cash. In H1 2021 EOS received $30 million in cash payments for its finished products, reducing the contract asset balance.

Today EOS received a further $65 million of new cash payments under its largest export contract. EOS has now received over $95 million of cash payments under this contract during the past 6-months.

Because EOS is producing continuously for this $440 million contract, the value of the contract asset going forward will vary according to the production, invoicing and payment cycles under the contract. In future the Company intends to comment on this contract in the normal course of reporting.

EOS now has in excess of $100 million in total cash available, including the $35 million working capital facility established during the quarter. The Company intends to deploy this cash over the next 12 months, consistent with prior indications, predominantly towards expansion of its current defence and space businesses.

7. FINANCIAL GUIDANCE

The changes to the Company's financial guidance are shown below:

	Previous Guidance[1]	**Revised Guidance**
Revenue	$230m to $240m	$215m to $220m
Underlying EBIT before SpaceLink costs (excl. FX gains / losses)	**$18m to $21m**	**$4m to $8m**
SpaceLink costs	$17m	$19m
Underlying EBIT after SpaceLink (excl. FX gains / losses)	**$1m to $4m**	**-$11m to -$15m**

[3] The "Underlying EBIT before SpaceLink costs" is calculated after removing the exchange gain/ (loss) amount from Earnings Before Interest and Tax (EBIT) and adding back SpaceLink Inc. expenses.

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Key Points:

- The company's underlying EBIT before SpaceLink costs is expected to be a profit of $4 million to $8 million, a reduction of $14 million compared to prior guidance. The underlying EBIT after SpaceLink costs is expected to be a loss of between $11 million and $15 million, representing a decline of $16 million compared to prior guidance.

- The $16 million adjustment is comprised of $11 million of profit deferred to 2022, $3 million increased investment in business development, and $2 million expansion of SpaceLink outlays.

Contributing Factors

The revised guidance for 2021 takes into consideration several factors applying across the business:

- The Defence Systems division has seen customer-requested schedule amendments that have resulted in the deferral of $11 million of defence EBIT from Q4 2021 into 2022. These impacts are from the Company's two largest Defence contracts, one overseas and one domestic, in almost equal measure.

- A significant acceleration in Commonwealth defence activity has required $3 million of increased spending in business development and tendering in space and other advanced technologies. This increased expense is strategically made but has placed downwards pressure on EBIT.

- The Company has also recently increased its planned investment in its SpaceLink subsidiary by over $2 million based on the successful achievement of key milestones. The project funding requirements of the Company's SpaceLink business are discussed separately below.

- The EBIT of the Company's Space and Communications Systems divisions has improved due to increased orders. The improvement in profitability is due to the increase in volume from a modest base and this increase in business volume is expected to continue into 2022.

8. SPACELINK FUNDING REQUIREMENTS

EOS has continued to invest in SpaceLink, the communications superhighway for the space economy. The award by SpaceLink of a US$300+ million contract to OHB Systems, effective from 21 September 2021, confirms estimates of the program budget, technical specifications and the 30 month build schedule ahead of the regulatory "Bring-Into-Use" deadline of mid-2024. It is now known that the funding requirement for SpaceLink will be circa US$700 million through to positive cash flow, less than initially budgeted.

EOS intends to apply at least US$300 million of debt, with around US$400 million of equity capital split over multiple tranches to meet the US$700 million requirement. EOS anticipates

that tranche 1 of the funding requirement will be met through a SpaceLink pre-IPO convertible note which is currently under discussion with investors. Per the announcement on 13 October 2021[4], OHB intends to invest US$25 million into SpaceLink as the cornerstone investor in the round.

Shareholders will be updated on the finalisation of the funding round in due course. The remaining equity capital is expected to be achieved through a listing of SpaceLink on a major exchange within the next 18 months or other available funding sources.

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[4] See ASX announcement of 13 October 2021 "EOS and SpaceLink select OHB as preferred tenderer for satellite manufacturing contract"

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 2021

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	23,985	140,967
1.2	Payments for		
	(a) research and development	(4,234)	(11,124)
	(b) product manufacturing and operating costs	(21,023)	(86,171)
	(c) advertising and marketing	(523)	(1,400)
	(d) leased assets	-	-
	(e) staff costs	(13,257)	(38,750)
	(f) administration and corporate costs	(5,952)	(17,235)
1.3	Dividends received	-	-
1.4	Interest received	77	373
1.5	Interest and other costs of finance paid	(679)	(2,909)
1.6	Income taxes paid	(977)	(1,762)
1.7	Government grants and tax incentives	15	99
1.8	Other (provide details if material)	110	219
1.9	**Net cash from / (used in) operating activities**	**(22,458)**	**(17,693)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(6,278)	(15,248)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-

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	(347)	(8,701)
2.6	**Net cash from / (used in) investing activities**	**(6,625)**	**(23,949)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	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	35,000	35,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(812)	(812)
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(989)	(3,312)
3.10	**Net cash from / (used in) financing activities**	**33,199**	**31,125**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	51,118	65,933
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(22,458)	(17,693)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,625)	(23,949)

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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)	33,199	31,125
4.5	Effect of movement in exchange rates on cash held	(305)	(488)
4.6	**Cash and cash equivalents at end of period**	**54,929**	**54,929**

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	40,258	36,671
5.2	Call deposits	14,671	14,447
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)**	**54,929**	**51,118**
Note	**Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees**	**27,048**	**25,680**

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	352
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

The amounts included in Item 6.1 includes $207,577 in salary and other benefits to the CEO. Consulting fees paid to the former co-company secretary of $36,000 and $108,436 paid in directors' fees and superannuation to directors and entities associated with non-executive directors during the quarter.

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7.	**Financing facilities** *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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	35,000	35,000
7.2	Credit standby arrangements	-	-
7.3	Other – Export Finance Australia	69,946	66,247
7.4	**Total financing facilities**	**104,946**	**101,247**

7.5	**Unused financing facilities available at quarter end**	3,699

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.

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 *pari passu* with the Export Finance Australia facility below.

Export Finance Australia facility:

1. The consolidated entity provided a performance bond in respect of a contract in the Defence sector for US$31,635,147 (A$43,872,443) 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 US$12,654,055 (A$17,548,973) 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.

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$22,374,946). The offset bond was provided by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US$3,226,785 (A$4,474,989) 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)	(22,458)
8.2	Cash and cash equivalents at quarter end (item 4.6)	54,929
8.3	Unused finance facilities available at quarter end (item 7.5)	3,699
8.4	Total available funding (item 8.2 + item 8.3)	58,628
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	3

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.

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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: 27 October 2021

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.

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