ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ABN 95 092 708 364
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Symonston, ACT 2609, Australia
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www.eos-aus.com

28 February 2024

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir or Madam,

Appendix 4E and Preliminary Final Report – Listing Rule 4.3A

The Appendix 4E Preliminary Final Report and the Annual Financial Report for the Year ended 31 December 2023 is attached.

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

Yours faithfully

Leanne Ralph
Company Secretary

Appendix 4E and Preliminary Final Report of

Electro Optic Systems Holdings Limited

for the Financial Year Ended 31 December 2023

ACN 092 708 364

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period:	Financial Year ended 31 December 2023
Previous Corresponding Period:	Financial Year ended 31 December 2022

Appendix 4E

1. Details of the reporting period

This preliminary financial report under ASX listing rule 4.3A covers Electro Optic Systems Holdings Limited and its controlled entities ("the Group") and is based on the attached audited Financial Report for the year ended 31 December 2023.

2. Results for announcement to the market

		Percentage Change %		Amount ($'000s)
Revenue from ordinary activities	**Up**	**59.0%**	**To**	**219,253**
(Loss) from ordinary activities after tax attributable to members		**N/A**		**(33,275)**
Net (Loss) attributable to members		**N/A**		**(33,275)**

3. Dividends per security

	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

Record date for determining entitlements to the dividend:

- final dividend N/A
- interim dividend N/A

No dividends have been declared or paid.

4. Net tangible assets per security

Net tangible assets at 31 December 2023*	$159,467,230
Number of ordinary shares outstanding at 31 December 2023	171,236,006
NTA per ordinary share at 31 December 2023	93.1 cents per share
NTA per ordinary share at 31 December 2022	119.7 cents per share

**including Right of use assets and lease liabilities recognised in accordance with AASB 16 Leases*

5. Further disclosures

Refer to the table below for further disclosures required under ASX Listing Rule 4.3A:

ASX 4E item:	Requirement	Cross reference
1	Details of the reporting period	Refer to Section 1 above.
2	Results for announcement to the market	Refer to Section 2 above.
3	Statement of financial performance and notes	Refer to the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the attached Financial Report.
4	Statement of financial position and notes	Refer to the Consolidated Balance Sheet in the attached Financial Report.
5	Statement of cash flows and notes	Refer to the Consolidated Statement of Cash Flows in the attached Financial Report.
6	Statement of retained earnings	Refer to the Consolidated Statement of Changes in Equity in the attached Financial Report.
7	Dividends per security	Refer to Section 3 above.
8	Dividend reinvestment plan	There was no dividend reinvestment plan in operation during the financial year.
9	Net tangible assets per security	Refer to Section 4 above.
10	Details of entities over which control was gained or lost during the year	None - refer to Note 27 in the attached Financial Report.
11	Details of associates and joint ventures	None.
12	Other significant information	Refer Directors' Report and Financial Report.
13	Foreign entities	Refer to Note 1 in the attached Financial Report.
14	Commentary on results	Refer to Review of Operations in the attached Directors' Report.
15-17	Audit	This report is based on the consolidated financial statements which have been audited by Ernst & Young with the Independent Auditor's Report included in the attached Financial Report.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ACN 092 708 364

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

CORPORATE DIRECTORY

Directors
Mr Garry Hounsell (Chairman)
Dr Andreas Schwer (Managing Director and CEO)
Air Marshal Geoffrey Brown AO
The Hon Kate Lundy
Mr David Black
Mr Robert Nicholson

Chief Executive Officer
Dr Andreas Schwer

Company Secretary
Ms Leanne Ralph

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Auditors
Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2600
Australia

REVIEW OF OPERATIONS

1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2023

For Electro Optic Systems Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "EOS"), Revenue from Continuing Operations activities was $219.3m, representing a $81.4m or 59% increase on the prior year (31 December 2022: $137.9m).

For the year ended 31 December 2023, the Loss After Tax from Continuing Operations was $34.1m, compared to the 2022 loss from Continuing Operations of $53.6m (2022: operating Loss After Tax of $115.6m including the results from SpaceLink's Discontinued Operations).

Underlying EBITDA from Continuing Operations (prior to foreign exchange gains) was a Profit of $5.7m, representing an increase of $48.6m on the Underlying EBITDA Loss from Continuing Operations of $42.9m in the prior year.

The Group reported Net cash inflows from Operations for the year totalling $113.1m (31 December 2022: $51.6m Net cash outflows from Operations, which included $15.3m outflows relating to Discontinued Operations in 2022). In addition, the Group reported $34.7m of Net cash outflows from Investing Activities (31 December 2022: $28.3m). The Net cash outflow from Financing Activities for the year was $29.1m, due primarily to the repayment of debt (31 December 2022: Net cash inflows $45.4m).

At 31 December 2023, the Group held cash totalling $71.0m (31 December 2022: $21.7m). In addition, the Group had deposited $67.1m of Restricted Cash Security Deposits at 31 December 2023 (31 December 2022: $35.6m).

Key elements of financial performance are summarised below.

Revenue from Continuing Operations

For the year ended 31 December 2023 the Group recorded revenue from Continuing Operations of $219.3m (31 December 2022: $137.9m), representing an increase of $81.4m or 59%.

The increase in revenue was driven partly by higher Defence Systems segment revenue, up from $105.9m in 2022 to $155.4m in 2023, an increase of $49.5m. More detailed information is provided in Section 4 below.

Revenue in the Space segment also increased on prior year to $63.9m (2022: $32.0m), driven by the growth in the EM Solutions business. More detailed information is provided in Section 4 below.

The underlying cause of this 2023 revenue increase was higher activity levels, including on the delivery of a Defence Systems contract to a customer in the Middle East, delivery of a contract to a Western European Government and the commencement of a new EM Solutions contract with the Commonwealth of Australia.

At 31 December 2023, the Group had a backlog of contracted future work of over $600m, including $181m of conditional contracts. The unconditional contracts represent work under customer contracts, mainly in Defence Systems and EM Solutions and work is currently expected to be undertaken principally between 2024 and 2026. The conditional contracts are detailed in section 4 below.

Expenses from Continuing Operations

Expenses in Continuing Operations increased from $215.3m in the prior year to $262.9m in this year. This increase of $47.6m was partly driven by an increase in material costs of $40.6m due to higher activity and an increase in finance costs of $21.3m due to a full financial year of interest incurred for the facilities entered into September 2022. This is offset by reduced employee costs of $5.7m arising from cost savings implemented in Q4 2022. The increase of $6.7m in administration expenses in 2023 was driven by increased marketing costs associated with new product launches and increased travel costs associated with growing markets in Europe and the resumption of travel post COVID.

The Group Gross Margin on Materials (including expenses of Cost of Goods Sold and Movements in Inventory) was 44% in 2023 (2022: 34%). This increase was driven by higher margin sales being achieved in 2023 in the Defence Systems business.

Underlying EBITDA from Continuing Operations

Underlying EBITDA from Continuing Operations (prior to foreign exchange gains) was a profit of $5.7m, compared to an EBITDA loss from Continuing Operations of $42.9m (prior to foreign exchange gains and impairment charges) in the prior year.

Continuing Operations Year ended 31 December $m	2023	2022
(Loss) for the year	**(34.1)**	**(53.6)**
Income tax (benefit)	(6.1)	(9.3)
(Loss) before tax	**(40.2)**	**(62.9)**
Finance costs	35.6	14.3
Impairment of assets	-	7.3
Foreign exchange (gain)	(0.9)	(12.7)
Underlying EBIT (loss) (before impairment and foreign exchange gains)	**(5.5)**	**(54.0)**
Depreciation & amortization & other	12.4	11.1
Other one-off (gain) adjustments	(1.2)	-
Underlying EBITDA profit/(loss) (before impairment and foreign exchange gains)	**5.7**	**(42.9)**

Impairment

There were no impairments recognised in the year ended 31 December 2023.

During the prior year, the Group recognised an impairment charge of $54.5m, including a charge of $7.3m relating to Continued Operations and $47.2m relating to Discontinued Operations.

Foreign Exchange

The results included a foreign exchange gain in the year of $0.9m (2022: gain of $12.7m), which predominantly arose on the translation of US Dollar assets into Australian Dollars.

Discontinued Operations in prior year

During the prior year, the Group ceased investment in SpaceLink and subsequently SpaceLink ceased normal operations and entered an orderly wind-up process in the United States, by way of an Assignment for the Benefit of Creditors (“ABC”).

The Group no longer controls SpaceLink as it is controlled by an Assignee under the ABC process, who acts in the interest of the creditors. During the year ending 31 December 2023, the Group has not incurred any significant cash outflows related to SpaceLink and it does not expect to incur any future significant cash outflows relating to SpaceLink.

The results of Discontinued Operations are disclosed in Note 6 to the financial statements.

Contract Asset

The Group recognises a contract asset, being revenue recognised on projects that has not yet been invoiced to customers. Revenue is recognised under Australian Accounting Standards. Amounts are invoiced to customers in accordance with legal arrangements specified in customer contracts.

At 31 December 2023, the Group had a contract asset totalling $68.0m (31 December 2022: $164.4m), being revenue earned but not invoiced, mainly on a project with a significant overseas customer in the Middle East. The contract asset decreased by $96.4m during the year, due to invoices issued to customers during the year exceeding revenue recognised on customer contracts.

The invoicing of the amounts in the contract asset balance and the realisation of cash has been a critical focus for the Group during 2023 and the reduction in the contract asset was in part due to a contract amendment agreed with our customer in the Middle East in H1 2023.

Contract Liabilities – Amounts Received in Advance

The Group recognises contract liabilities for amounts that have been received from customers as advance payments on projects. During the year, the amount of contract liabilities decreased from $22.2m at 31 December 2022 to $20.6m at 31 December 2023.

Cash Balances

The cash balance increased from $21.7m at the start of the year to $71.0m at the end of the year.

The Group continues to closely monitor the cash flow of the Group and the outlook for the business, to ensure that adequate funding is in place and, if necessary, seek to amend the Group capital structure. The Group continues to focus on maximising cash inflows, including seeking contract amendments on existing contracts where appropriate, and securing and delivering on new sales contracts that are cash positive.

Cash Flows from Operating Activities

During the year, the Group had net cash inflows from operating activities of $113.1m.

Net cash from operating activities was impacted by an increase in Receipts from Customers from $145.9m in the prior year to $325.4m in 2023. The increase was driven by new contracts and higher activity on the delivery on continuing projects, including the realisation of contract assets. Payments to Suppliers and employees of $215.9m, increased from $188.6m in the prior year, due to the increased supplier payments as the result of increased activity. Cashflows from other operating activities of $3.6m represent tax received and interest paid during the year.

Cash Flows from Investing Activities

The Group had net cash outflows of $34.7m from investing activities during the year. This included cash outflows of $31.8m for Security Deposits for bonds required under contracts with Australian and overseas customers, and $2.9m in acquisitions of property, plant and equipment.

Cash Flows from Financing Activities

The Group repaid $26.9m to retire the Working Capital Facility which matured on 6 September 2023. For the purposes of presentation in the Statement of Cash Flows, this repayment has been split between interest paid ($4.4m) and principal repayment ($22.5m). The Group also repaid $1.9m of unsecured borrowings during the reporting year.

As at 31 December 2023, the Group had the following secured borrowing facilities outstanding:

- Additional Working Capital Facility, with $15.0m principal drawn, maturing on 11 April 2024, with a debt repayment obligation of $20.5m.
- Term Loan Facility, with $35.0m principal drawn, maturing on 11 October 2025, with a debt repayment obligation of $52.1m.

Under the borrowing facility agreements, during Q4 2023, EOS commenced the payment of monthly interest and line fees to Washington H. Soul Pattinson ("WHSP"). Interest and line fees had previously been capitalised into the outstanding loan facility balance, up to an agreed limit.

Following a fee claim that was received on 9 October 2023 and disputed by EOS, the Group resolved a commercial dispute with its primary lender, WHSP on 22 December 2023. The commercial fee dispute was in relation to a consent to a waiver previously provided by WHSP for EOS to issue bank guarantees. This fee was subsequently agreed between the parties in a facility amendment executed between the parties on 22 December 2023, where EOS will pay WHSP a $4.5m fee in full and final settlement of the previous disputed fee claim, and WHSP has agreed to relax certain restrictions included in the borrowing facility agreements. The flexibility afforded by this relaxation is expected to allow EOS to take advantage of future business growth opportunities as they arise. The agreement was conditional on the approval of another finance provider, EFA, which was received subsequent to year-end, resulting in the facility amendment becoming unconditional and the $4.5m fee being paid to the lender.

At 31 December 2023, all borrowing facilities were fully drawn. Total secured borrowings under these facilities, including capitalised initial fees and interest were $72.6m (31 December 2022: $83.6m). The Group has $0.3m of undrawn bond facilities at 31 December 2023.

The facilities are secured on certain Group assets, and terms of these facilities include financial covenants, and minimum earn amounts. These are disclosed in Note 18 to the Financial Statements.

No new shares were issued during the year to 31 December 2023, however share options and share rights were issued to staff, which are expected to be settled from existing shares already on issue.

During the reporting year, the Group executed agreements which required the provision of new guarantees of $22.2m to an Australian Customer. The guarantees were issued on the Group's behalf by funding providers and are secured by cash Security Deposits of $21.1m as at 31 December 2023. These guarantees and cash deposits are expected to be returned to the Group during 2024 as obligations are fulfilled.

Pursuant to the terms of the new EM Solutions contract with the Royal Australian Navy, a further $6m of bonds were entered into by the Group during the year which is fully secured by cash.

2. CHANGES IN DIRECTORS AND MANAGEMENT

During the year, the following changes to Board membership occurred:

- Ms Deena Shiff stepped down from her role as an Independent Non-executive Director of the Company on 31 January 2023;
- Mr Robert Kaye SC resigned from his role as an Independent Non-Executive Director of the Company on 20 March 2023;
- Dr Ben Greene resigned as an Executive Director of the Company on 27 March 2023;
- Mr Robert Nicholson was appointed as an Independent Non-Executive Director of the Company on 24 May 2023; and
- Dr Andreas Schwer was appointed as an Executive Director of the Company on 11 December 2023.

In the management team, during the year:

- Mr Matt Jones was Acting Executive Vice President of Defence Systems until 2 November 2023; and
- Mr Ian Cook was appointed Executive Vice President of Defence Systems (Australia) on 2 November 2023.

3. COMPREHENSIVE PROGRAM OF CHANGE

The Group continued with the implementation of its change program during the year. The Board has further strengthened the globalisation of EOS as an Australian-headquartered international company.

This expansion requires a move to a more global operating structure with greater focus on sales in Europe, the United States of America, the Middle East and Asia – all of which are markets offering significant growth potential for EOS.

To realize this growth, a greater operational focus is required in Australia, including on engineering, supply chain and manufacturing as well as industrial and commercial competencies.

Management is developing opportunities to further improve these two focus areas.

Further work is continuing in a number of other areas, aimed at improving cash flow, profitability, funding and returns, including:

- diversifying the range of products, markets and customers, including initiatives to secure new customer contracts, including improving sales and marketing effectiveness;
- continued focus on realising cash from the Group's customer contracts. This includes seeking contract amendments with customers where possible, optimising the achievement of relevant milestones and seeking more favourable terms on new contracts;
- careful management of costs, in line with the revenue and activity levels of the business; and
- rationing and prioritising capital expenditure, including R&D spending, towards core Defence and Space businesses, using commercial investment criteria, and seeking third party product development funding where appropriate.

4. DETAILED SEGMENT UPDATE

a) EOS DEFENCE SYSTEMS

Defence Systems had a positive year ended 31 December 2023, with revenue increasing from $105.9m in the prior year to $155.4m in the year to 31 December 2023. This $49.5m increase was predominantly due to the impact of the continued focus on the contract for a large customer in the Middle East and a new contract with a Western European Government.

The main activity during the year was the manufacture and delivery of Remote Weapon Systems ("RWS") for several different customers.

Market Overview and Sales Activity – Defence Systems

The global market for EOS products continued to develop positively during 2023. This was partly due to the conflict in Ukraine, conflicts in the Middle East and rising tensions in other locations. This positively impacted on customer demand in NATO countries and other markets, resulting in increased overall customer enquiry levels and continuing discussions.

Typically, EOS operates in an industry where it can take an extended period of time (including up to, and beyond, twelve months) for new market opportunities to be converted into signed sales contracts. EOS continues to pursue a number of material opportunities in different markets, including Europe, the Middle East, North America and other international markets.

The global market outlook strengthened as the 2023 year progressed, as many nations announced planned increases in defence spending. This may lead to increased opportunities in future.

In Australia, the Commonwealth of Australia published the outcome of its Defence Strategic Review in April 2023. This review clarified the Australian Defence Force's ("ADF") future plans on key projects. During the year, EOS took part in discussions with Hanwha in relation to the Land 400 Phase 3 Project in Australia. Under this project, Hanwha has been selected to deliver 129 vehicles to the ADF in 2027 and 2028. EOS expects that it may receive the opportunity to provide RWS to Hanwha as part of this project. In addition, EOS may also have the opportunity for a share of work in support of the manufacture of turrets for Hanwha. EOS expects discussions to continue during 2024.

Work continued during the year on sales opportunities, including significant projects in Australia and internationally.

In the year to 31 December 2023, the Group executed contracts with customers for the following new business:

- a conditional contract to supply RWS to Ukraine, valued at approximately $120m;
- a further conditional contract to supply RWS to Ukraine, valued at approximately $61m;
- a contract with a Western European government to supply RWS, valued at $52m;
- a contract to supply R600 RWS unit spares to a customer in Southeast Asia, valued at approximately $28m; and
- a further contract with a Western European government to supply additional RWS, valued at approximately $25m.

In addition, in January 2024, a contract was signed to supply EUR 9m (approximately A$15m) of Slinger Counter-Drone Systems to Diehl Defence in Germany.

Following demonstration testing in August 2023, EOS products have been approved by the Ukrainian authorities for purchase as required. EOS is now working with the Ukrainian end-users and customers to allow committed orders to be placed under the conditional contracts. Further demonstration testing is planned to occur in Ukraine during 2024. These contracts are also subject to early termination rights in favour of the customer. There is no certainty or guarantee that committed orders will be received by EOS under these conditional contracts.

In July 2023, the Group delivered RWS to a Western European Government customer, under a contract valued at EUR 32m (A$52m). An amendment to this contract was executed in late December 2023 to supply this customer with further RWS, valued at approximately A$25m. The delivery of these additional units is expected in early 2024.

The Group continues to be in active discussions and contract negotiations for the provision of RWS and related components with other potential customers. There is no certainty that any particular outcome or transaction will result from these discussions and negotiations.

Product Development – Defence Systems

Product development work continues on a range of opportunities. Where development costs are significant, the Group is focused on obtaining third party funding, to speed delivery to the market and manage costs and returns on capital.

Defence Systems continued work during the year to widen its RWS product range from its longstanding successful R400 RWS product, and to develop its intellectual property and commercialise its product range:

- **Slinger Counter Drone System.** Defence Systems launched its new “Slinger” counter-drone (or “CUAS”, Counter Unmanned Aerial System) product during May 2023, and conducted demonstrations. This new product draws upon the Group’s deep expertise in accurate pointing technology and applies it to the growing threat of drones. During 2023, initial orders for nine systems were received from a customer in the United States. These are expected to be sent to Ukraine as part of a USA security assistance package. In addition, after the end of the year, a further $15m of Slinger systems were ordered by a customer in Germany in January 2024.
- **R150 RWS**. Defence Systems worked to secure an initial order for the new lightweight R150 RWS product. This new product has been completed and is now entering the marketplace. An order of 14 R150 gimbals was received in January 2023, as part of the L3 Harris Vampire portable rocket program, under which the US is providing support to Ukraine. The order is for less than $10m and was largely complete as at the end of 2023.
- **Uncrewed R400 RWS**. Defence Systems also supported the integration and subsequent deployment of four R400 RWS equipped uncrewed ground vehicles (UGV) for a NATO customer. This deployment represents the first NATO operational deployment for a UGV equipped with lethality systems.
- **R600 RWS.** Following supply in previous years, a follow-on order was secured in Q4 2022 for 14 new heavy calibre R600 RWS, plus spares, for a customer in Southeast Asia. The R600 RWS order is being manufactured in the Groups US facilities in Huntsville, Alabama. The total order is for up to $15m and is expected to be delivered in 2023 and 2024. In November 2023, a further follow-on contract was secured to supply approximately $28m of R600 RWS unit spares to the same customer.
- **R800 RWS.** This new product was unveiled at the AUSA Trade Show in the United States during the year. This product is a heavy-duty Remote Weapon Station that delivers the

lethality of a full-sized medium calibre turret at a significantly lower weight and cost than a turret.

- **1kW Laser Dazzler.** This product was developed to blind the optical cameras in all classes of unmanned aerial systems (drones) and anti-tank guided missiles. This is a new technology for countering air and seaborne threats and is a silent, non-ballistic countermeasure which can be integrated with the R800 RWS. The Laser Dazzler provides operators a flexible range of kinetic and non-kinetic response options against uncrewed aerial and surface vessel threats.

Discussions with a number of potential future customers are continuing in relation to these new products. Typically, new product launches in the defence industry can take one to three years or more to achieve sales and develop commercial maturity.

Prototype High Energy Laser Weapons

During the year, the Group demonstrated a prototype 34-kilowatt High Energy laser Weapon system engaging drones. Discussions are underway with potential customers with a view to agreeing customer-funded product development programs for this product. This could lead to development agreements being signed in 2024 or 2025, and commercial sales occurring in the period thereafter. It is expected to take some time for Directed Energy products to achieve significant commercial scale. There is no certainty that this will occur.

Supply Chain, Operations and Facilities – Defence Systems

Delivery against customer contracts in 2023 continued to face supply chain risks. The normalisation of global supply chains has improved in some areas, however this area continues to be a risk that is closely monitored and managed by the Group.

b) EOS SPACE SYSTEMS

For the year to 31 December 2023, revenue in the EOS Space Systems segment increased to $63.9m from the prior year (2022: $32.0m). EOS Space Systems comprises two business units, Space Technologies and EM Solutions.

Space Technologies

Space Technologies delivers space domain services (providing information on objects in space) and advanced manufacturing, (which includes the design, building and deployment of telescope and observatory equipment). Space Technologies also develops technologies that support Optical Communications (using lasers) and Space Control activities.

During 2023, Space Technologies continued to grow and commercialise its technology. This included delivering satellite laser ranging services to longstanding customers, and the successful completion of a beam director assembly for a foreign customer. Space Technologies continued to secure small contracts with international customers for Space Domain Awareness services and have successfully delivered on contract requirements. Our Kiwistar Optics business based in New Zealand continues to win contracts and deliver to customers.

During the year, discussions were held with various potential partners to develop opportunities for Space Technologies in the market for Space Control and Space Warfare solutions. This is an emerging market opportunity in both the United States and several other markets. Discussions to date have focussed on the Group's unique capabilities and potential opportunities for the Group to secure product development funding. These discussions are expected to continue in 2024.

Space Technologies continues to develop sales opportunities on a range of potentially significant future projects for Australian and overseas customers. These will help underpin future strategic growth initiatives, including in Space Control and Space Warfare solutions. Typically, it can take a year or more for opportunities to be developed and converted to signed sales agreements.

EM Solutions

EM Solutions designs, builds, deploys and maintains on-the-move satellite communication equipment systems for defence forces. EM Solutions' main products include satellite communication terminals and antennae for naval vessels and other marine applications.

During 2023, EM Solutions continued to focus on delivering growth through the delivery of satellite communication systems to naval customers in Australia and Europe and working closely with customers to deliver leading products and continue to deliver profitable growth.

In the year to 31 December 2023, the EM Solutions business:

- executed a significant new contract for up to $202m to modernise communications across the Royal Australian Navy over the next seven years;
- continued work on its $26m three-year sustainment contract for the Royal Australian Navy's existing fleet of Cobra Maritime SATCOM terminals;
- was part of the team selected as preferred tenderer to deliver the Australian Defence Forces ("ADF") new military satellite communications capability;
- continued to deliver its Cobra Maritime SATCOM terminals to customers in Europe; and
- secured new customer orders valued at $34.5m for Satellite Communication Terminals and Radio Frequency components.

EM Solutions continues to work closely with the ADF to support the Royal Australian Navy and other customers.

5. SUBSEQUENT EVENTS

Subsequent to year-end, EFA approval was received and the amendment to the finance facility agreement became effective and the $4.5m fee was paid to the lender.

Apart from the above, there have been no transactions or events of a material and unusual nature between the end of the reporting period and the date of the report likely, in the opinion of the Directors of the Company, to significantly affect the operations of the Group, the results of those operations, or state of affairs of the Group in future years.

6. MATERIAL BUSINESS RISKS

The following is a summary of the material business risks of the Group. These are not listed in any order of importance and do not constitute an exhaustive list. Any of these risks may adversely impact on the financial and operating performance and prospects of the Group and on the ability of the Group to continue operating as a going concern.

(i) Cash Receipts, Liquidity, Borrowing Covenants, Funding and Going Concern

The Group incurred a Loss Before Tax from Continuing Operations of $40.2m for the year ended 31 December 2023 and had a net cash inflow from Operating Activities of $113.1m. The Group has borrowings that are repayable as follows:

- $20.5m on 11 April 2024; and
- $52.1m on 11 October 2025.

In addition, the Group is required to comply with certain borrowing covenants.

The Group is reliant on cash collections from customers, including a large customer in the Middle East. The receipt of adequate cash from this and other customers depends on customers making timely payments for the goods supplied in accordance with contractual terms, the continued realisation of the Group's contract asset, and on the Group securing new additional cash positive sales orders from customers.

The Group is a party to large contracts which can create relatively large receipts and payments. in short periods of time. The Group is exposed to risk if receipts are delayed and this can create additional liquidity requirements at short notice. The Group manages this risk by monitoring near-term cash forecasts and proactively pursuing cash collections and other cash management strategies.

If adequate cash is not received, the Group may breach borrowing covenants and/or may not have sufficient liquidity and funds to continue operations. In addition, it may be required to renegotiate with lenders and/or other finance providers and to complete further debt or equity raisings. There is no assurance that the Group will be successful in any potential future recapitalisation and/or refinancing should this be required. If the Group is unable to receive adequate cash receipts from customers, or to obtain additional funding as required, it may have a material adverse effect on the Group's ability to continue operating and its ability to continue as a going concern.

The Group is regularly asked to issue bank guarantees under new customer contracts. The issuance thereof is subject to constraints in borrowing facility agreements, which in some circumstances require approval from financiers. There is no guarantee that such approval will be obtained and this can impact the Group's ability to secure customer contracts on attractive terms.

The Group is working to mitigate this risk to the best of its ability by holding regular and constructive discussions with customers and with lenders and other finance providers, by maintaining pro-active cash management processes and by exploring profitable new business opportunities that, if converted, will be cash flow positive. The Group has set management performance targets for cash collected in the year.

More information on this risk is included in the Financial Statements and Notes thereto.

(ii) Customer Concentration & Future Sales Revenue risks

Currently, the Group's activities are concentrated with a relatively small number of customers and the Group has a contract backlog of over $600m. The Group's ability to continue operating depends on its ability to secure profitable future sales contracts from existing and new customers.

The results of the Defence Strategic Review in Australia will impact on future sales opportunities in Australia. The Group is working to mitigate any risk to the best of its ability by implementing plans to diversify the business with new customers. The Group has a detailed pipeline of potential future opportunities and has set management performance targets for new business won in the year (which may span over multiple years) and revenue delivered in the year. Management incentive schemes have been established and are updated regularly.

Future sales revenue and cash receipts are likely to continue to be dependent on the performance of customers and others. For example, EOS sometimes relies on the availability of customer vehicles, or critical components (such as cannons) from suppliers. The Group assesses this risk and takes steps to mitigate this risk, for example by securing appropriate contract terms where possible.

There is no guarantee that the Group will be successful in securing new sales orders, diversifying the business or mitigating potential future non-performance of customers and others.

(iii) Foreign Exchange risks

The Group typically incurs costs in Australian dollars and United States dollars, and sells products priced in Australian dollars, United States dollars and other currencies. This can create a foreign exchange exposure, particularly as costs are often incurred prior to sales proceeds being received, and the Group holds assets (including contract assets) denominated in foreign currency. The Group works to monitor foreign exchange exposures and mitigates these by factoring reasonably possible foreign exchange movements into pricing.

In addition, receipts and payments with foreign exchange risks are often incurred over extended periods of time, protecting the Group from the impact of short-term movements in foreign exchange rates. Except for the natural hedge afforded by having operating assets in different countries, the Group does not hedge foreign exchange transactions. The Group may incur exchange gains and losses as a result of this approach.

(iv) Human Resources risks

The Group's ability to continue operating depends on its ability to retain and attract (where required) high quality managers and staff with skills aligned to the future needs of the Group, particularly as our order book expands.

The market for hiring new staff remains challenging in several key areas. The Group employs a range of initiatives to attract and retain appropriate resources, including implementing remuneration strategies and other employee benefits and evaluating the expansion of our production capability in the United States and other places. These are reviewed regularly.

There is no guarantee that the Group will be able to retain or attract key managers and staff. This may have an adverse impact on the Group's financial and operating performance.

(v) Cyber / Information Technology risks

The Group is dependent on the performance, reliability and availability of technology platforms, data centres and technology systems, including services provided by third parties. The Group operates in the defence industry and has a higher inherent Cyber / Information Technology risk profile than other organisations.

There is a risk that technology systems may be adversely affected by disruption, including by factors outside the Group's control. This could lead to a prolonged disruption to the Group's activities, with adverse effects on the Group's products and services, operations, interactions with suppliers, employees and others, delivery to customers, cash receipts and net cash flows, and on the Group's reputation.

The Group employs expert personnel and third-party service providers to help mitigate these risks. These mitigations include monitoring threats and other processes and insurance. The technical nature of this risk is subject to ongoing rapid evolution. If this risk arose, there is no guarantee that the mitigation activities would be effective and in this situation, it could have an adverse effect on the ability of the Group to continue operating.

During the year a new Board subcommittee, the Data Security and Data Governance Committee, was established to oversee this risk.

(vi) Geo-Political Change risks

The Group is exposed to changes in geopolitical risks, including changes in the operating environment that arise from wars, terrorist acts and tensions between states that impact global security. The Group operates in international markets in the defence industry and has a higher inherent geo-political risk profile than other organisations. The Group is also exposed to the risk of political and economic instability in international markets, inconsistent product regulation by national governments or their agencies, imposition of product tariffs and burdens, difficulty in enforcing intellectual property rights, national taxes, and language and other cultural barriers.

Changes in geopolitical situations or legal requirements could have an adverse impact on market development, sales opportunities, revenues, operations, costs, profits, and cash receipts and net cash flows, including the ability of customers to pay for products and services supplied. The Group addresses this by monitoring global developments, including meeting with senior defence and political leaders in different countries. The Group also considers potential future situations, particularly when developing and adapting market strategies and plans, as well as working to influence critical decisions through appropriate channels.

(vii) Operational Continuity and Supply Chain risks

In future, the Group's continuing operations may be affected by a range of factors, including the interruption of availability of materials and components caused by supply chain issues, access to operational premises and access to high-level engineering skills and personnel and to customer and supplier facilities and equipment. The Group's products are also subject to obsolescence risks, including the ongoing availability of critical components that may no longer be being manufactured by suppliers.

The Group continues to monitor these risks and develop plans to mitigate them, including working to source and hold inventories of critical parts. In addition, the Group continues to work with customers and others to address the risk of adverse financial impacts of delays in access to firing ranges, vehicles, weapons and other critical items. There is no guarantee that the Group's plans will cover all scenarios or be successful in fully mitigating these risks, should they arise in future.

(viii) Stakeholder Dissatisfaction risks

The Group interacts with a wide range of stakeholders. These include customers (including various government, defence force and other buyers) suppliers, industrial partners, regulators, lenders and funding providers, employees, equity investors and others. The ongoing operation of the Group depends on the level of trust and confidence of stakeholders in the Group.

To improve relationships with stakeholders, the Group appointed new leadership during 2022 including a new Chair of the Board of Directors, a new Chief Executive Officer and a new Chief Financial Officer. The Group is working to renew and improve relationships with stakeholders and this work will continue into 2024. There is no guarantee that the Group will be able to satisfy stakeholder requirements. Ultimately this could lead to stakeholders withholding co-operation and could disrupt the Group's ability to continue operating.

(ix) Product Development risks

Ongoing sales of existing products to customers require the maintenance and development of these existing products and services to ensure that they remain effective and saleable. In order to continue operating, existing products require the maintenance of legacy software, and the implementation of new software. The Group employs software engineers to do this.

The Group sells high technology products and services and there is the risk that fundamental technology changes occur over time rendering the group's existing products obsolete. For example, global security endeavours could become more focussed on missiles than land-based technologies, presenting a risk and an opportunity. The Group addresses this by monitoring market trends and developing new technology products. Product development work is subject to risk, including that if the Group does not have access to the necessary investment funding and the necessary skills and capabilities, this could disrupt or delay product development programs and ultimately the ongoing operation of the Group.

The technical and commercial development of new products depends on the assessment of evolving market needs and a range of complex factors. Product development can consume significant amounts of investment and may not result in the development of commercially viable products for extended periods of time or ever. The Group's access to appropriate sources of development funding and technical, commercial and strategic capability is a key determinant of future product viability and the Group may not be able to access these.

The Group regularly reviews it product portfolio and evolving market trends and continues to develop product plans to mitigate these risks. There is no guarantee that the Group will be able to maintain or develop commercially viable products.

(x) ESG: Environmental, Social and Governance risks

The Group is exposed to a wide range of Environmental, Social and Governance risks. The Group's products (including Remote Weapons Systems) and other services may be used in ways that impact human rights. The Group is required to comply with export controls in Australia, the United States and other countries and has implemented controls designed to ensure compliance.

The Group is exposed to other social risks, including evolving community expectations and obligations relating to supply chain ethics, modern slavery, diversity rights and behaviour of Directors and employees. The Group works to monitor social risks and take steps to monitoring evolving social expectations and ensure compliance with obligations in good time.

The Group is subject to the impacts of changes in environmental requirements and compliance obligations (including reporting) and to the impacts of changes in the environment on supply chain availability. The Group's activities, products and services may have an adverse impact on the environment. The Group's exposure to environmental and climate change risks is set out in more detail below.

The Group is exposed to governance risks, including those relating to Board governance and diversity and the ability to retain and attract Board Directors with the requisite skills and experience. In addition, there is the risk that Board review and decision-making processes may not be effective in ensuring compliance with relevant obligations and the ongoing viability of the Group at all times. The Board monitors its composition, skills and processes to assess this risk and take steps to mitigate risks where possible.

ESG risks continue to evolve rapidly and there is no guarantee that the Group will be able to continue to anticipate or fully mitigate these risks.

(xi) Regulatory and Legal risks

The Group is subject to a wide range of regulatory and legal obligations in different countries. These include regulations relating to Export Licenses for its products, security obligations (including relating to sites, people, data and classified activities) and compliance with the requirements of the Australian Securities Exchange and the Corporations Act 2001 (Cth) in Australia (and similar legislation in other countries).

The Group's regulatory and legal environment is subject to change and the Group can face new regulatory requirements. For example, in Australia, changes are proposed to export legislation (and associated) regulations under the Defence Trade Controls Amendment Bill 2023 that is being considered by the Parliament of Australia.

Changes in regulatory and legal requirements can impact the Group's ability to sell, manufacture or export key products or components. The Group monitors changes in the regulatory and legal environment and seeks to take mitigating actions where appropriate. There is no certainty that any mitigating actions taken may be effective in a way that allows the Group to continue operating without short-term or long-term impacts.

The Group's relationships with counterparties (including customers, suppliers, and others) are governed by contracts and relevant legislation in Australia, the United States of America and other countries. In addition, the Group's ongoing operations depend on continuing to meet regulatory and licencing requirements in different parts of the business and different jurisdictions. In particular, the Group requires specific government permits (including Export Licences) under the applicable export laws of the country of manufacture for each export of defence equipment. Such permits are issued and occasionally withdrawn for political and strategic reasons by the issuing government. Delivery contracts must be declined or terminated without fault if an export license is not granted and the Group works to manage this risk.

There is the risk that the Group could be subject to disputes, legal claims, litigation, investigations, class actions and sanctions from customers, suppliers, investors, lenders and other funding providers, regulators, governments and others. These may relate to past, current or future events or activities of the Group, including actions or omissions by Directors and employees. There is no guarantee that any past, current or future such matters arising will be resolved in a way that allows the Group to continue operating without short-term or long-term impacts.

(xii) Additional Information on Climate Change and Climate-related Risks

The Group is exposed to climate change and climate-related risks. Directors are responsible for providing oversight of the Group's risks and opportunities in this area.

The main climate risks that the Group face in the short term include compliance with evolving legislation, including reporting obligations in different jurisdictions. Reporting obligations are evolving and jurisdiction-specific and the Group works to ensure compliance with these requirements. Over the medium and long term, the Group has identified the risk that additional obligations will arise relating to potential mitigation of adverse environmental activity within the group's supply chains. The Group has an extensive and fragmented supply chain base which is involved in the manufacture of electronic and other equipment.

The Group's strategy for managing climate-related risks is under review which will include modelling of different climate-related scenarios, such as a '2 degrees centigrade or lower' scenario.

The Group has identified ESG (including climate risks) as a risk to the Group through it risk management process which is overseen by the Directors. Assessing this risk and developing mitigations and other actions (current and planned) is the responsibility of management. The Directors are responsible for monitoring compliance with the various evolving requirements (including reporting obligations), progress being made and the development of future plans.

The Group plans to renew its climate risk goals, strategy and detailed plans, including setting metrics and targets and preparing for climate-related reporting requirements.

7. LONG-TERM INCENTIVE PLAN

During 2023, a new LTI plan ('The Omnibus Equity Incentive Plan' or 'OEIP') was launched for executives and senior managers. This long-term incentive plan, consisting of share rights and share options, is aimed at aligning staff and shareholders' long-term interests. The rights and options are subject to service conditions, performance hurdles and other customary terms and may result in vesting from 31 December 2024 onwards.

There is no change in share capital as a result of these allocations and it is anticipated that upon vesting, these allocations will be satisfied, to the fullest extent possible, by shares already issued and held in trust (as lapsed shares) by the Legacy Loan-Funded Share Plan (LFSP).

During the year to 31 December 2023, 2,953,087 share options and 1,341,117 share rights were issued to executives and senior management as part of the OEIP introduced during the year. Further information on these Plans is included in the Remuneration Report.

In addition, shareholder approval will be sought at the 2024 Annual General Meeting for a grant of 2,100,000 share options and 1,260,000 share rights to the CEO and Managing Director, Dr Andreas Schwer.

No share rights or share options were issued to directors during or after the period.

8. OFFSET CREDIT OBLIGATION

The Group is obligated as part of its contract to supply a customer in the Middle East, to contribute to economic development in the country in order to offset against purchases of its products and services ("Offset Program").

This commitment is secured by an offset bond of US$16.9m (A$24.8m) which is guaranteed by Export Finance Australia. In respect of the bond, a cash security amount of US$10.5m (A$15.4m) has been placed on deposit. The cash security and bonds are expected to be released once the obligations are satisfied.

Under the Offset Program, Offset Credits can be earned by:

i investing in the country;
ii engaging in contracts that support local industry; or
iii making other contributions.

This is a common requirement for suppliers like EOS. Under the Offset Program guidelines, participants typically have several years in which to earn Offset Credits. As an alternative to generating Offset Credits through the Offset Program, in certain circumstances Offset Credits can be generated through participation in the Credit Purchase Program, which involves settling obligations by making cash payments.

As part of the Offset Program, EOS is required to develop, agree and submit an approved business plan to the Offset Credit authority. Following a series of discussions, on 30 August 2023, the government agency advised a deadline of 30 September 2023 for EOS to submit a revised business plan, which EOS delivered within the specified timeframe.

As at the date of this report, the business plan remains under review by the Offset Credit authority and the Group continued to have advanced discussions with the Offset Credit authority towards finalising this approval. Subsequent to year end, a Memorandum of Understanding was executed between the Group and the proposed JV partner that is being considered by the Offset Credit authority. As a result of the above, EOS considers that it is currently not in default of its obligations.

In the event that EOS does not comply with its obligations in future, the Offset Credit authority is entitled to demand payment under the guarantee outlined above. EOS intends to continue to work to ensure it complies with its obligations.

As at the date of this report, EOS considers that it is in compliance with its obligations and expects to reach agreement on an approved business plan, and to ultimately generate offset credits by executing that business plan. EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee.

9. CAPITAL MANAGEMENT

The Group's continuing focus on capital management, and the monetising of contracts on hand during 2023, contributed to increased cash inflows from operations of $113.1m, compared with cash outflows of $51.6m in 2022.

As at 31 December 2023 the Group had $71.0m of cash at bank and $67.1m of restricted cash held on deposit as security for bank guarantees.

The Group repaid $26.9m to retire the Working Capital Facility which matured on 6 September 2023. The Group also repaid $1.9m of unsecured borrowings during the reporting year.

As at 31 December 2023, the Group had the following secured borrowing facilities outstanding:

- Additional Working Capital Facility, with $15.0m principal drawn, maturing on 11 April 2024, with a debt repayment obligation of $20.5m.
- Term Loan Facility, with $35.0m principal drawn, maturing on 11 October 2025, with a debt repayment obligation of $52.1m.

The debt repayment on these facilities include capitalised interest and fees. The Group is a party to large contracts which can create relatively large receipts and payments. in short periods of time. The Group is exposed to risk if receipts are delayed and this can create additional liquidity requirements at short notice. The Group manages this risk by monitoring near-term cash forecasts and proactively pursuing cash collections and other cash management strategies.

10. BUSINESS OUTLOOK

As outlined above, work continues throughout the Group on several initiatives, to diversify its products, markets and customers, manage costs, develop cash flow, and improve profitability, funding and returns.

Market and Customer Outlook

The market outlook for the Group's products continued to develop positively. This was partly due to the conflict in Ukraine, conflicts in the Middle East and rising tensions in other locations. This positively impacted on customer demand in NATO countries and other markets. As a result, overall customer enquiry levels and discussions continued to advance.

Typically, EOS operates in an industry where it can take an extended period of time (up to a year or more) for new market opportunities to be converted into signed sales contracts. EOS continues to pursue a number of material opportunities in different markets, including Europe, the Middle East and other international markets.

Outlook for Revenue and Cash Receipts

The Group's activities include the sale of products under a small number of relatively large projects. Typically, both the recognition of Revenue and Cash Receipts from customers are governed by the achievement of project milestones and legal arrangements specified in customer contracts.

Changes in project timing, and the timing of the Group's revenue and cash receipts, can arise due to unplanned changes in circumstances. This can include delays at the customer, delays at the customer's other suppliers, delays at the Group and delays at the Group's suppliers.

The level of future revenue and future cash receipts from customers will depend on the achievement of product manufacturing and delivery milestones, compliance with detailed contractual requirements, ongoing customer relationships and the outcome of commercial discussions and negotiations. Historically, owing to a high level of customer concentration and specific contractual arrangements, both revenue and cash receipts have been difficult to predict with certainty.

The Group intends to continue providing regular updates during the year in line with its continuous disclosure obligations.

DIRECTORS' REPORT

The Directors of Electro Optic Systems Holdings Limited submit herewith the annual financial report of the Company for the year ended 31 December 2023.

In order to comply with the provisions of the *Corporations Act 2001* (Cth), the Directors report as follows:

1. Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Mr Garry Hounsell
B Bus (Acc), FCA, FAICD

Independent Non-executive Chair

Appointed: 24 November 2022

Board Committees: Nominations Committee (Chair)

Experience and Expertise

Garry is currently Chair of the Commonwealth Superannuation Corporation and Chair of Helloworld Travel Limited (since 2016). He is also a Non-Executive Director at Treasury Wine Estates Limited (since 2012), a Director of Findex (since January 2020), and a member of Commencer Capital's (formally Investec Emerging Companies) Investment Committee (since 2019).

Garry was previously the Chair of Myer Holdings Limited (2017-2020; Executive Chair Feb-Jun 2018), Chair and a Non-executive Director of Spotless Group Holdings Limited (2014-2017), and Chair of Emitch Limited (2006-2008) and PanAust Limited (2008-2015). He was also previously an Advisory Board Member of PanAust Limited (2015-2017), Rothschild Australia Limited (2012-2017), and Investec Global Aircraft Fund (2007-2019). He was a Director at Orica Limited (2004-2013), Nufarm Limited (2004-2012), Qantas Airways Limited (2005-2015), Mitchell Communication Group Limited (2008-2010), Integral Diagnostics Limited (2015-2017), Dulux Group Limited (2010-2017) and Investec Aircraft Syndicate Limited (2012-2018). Garry was a Senior Partner at Ernst & Young (2002-2004), CEO and Managing Partner of Arthur Andersen (2001-2002) and a Partner at Arthur Andersen (1989-2002).

Garry has a Bachelor of Business (Accounting) from the Swinburne Institute of Technology (1975) and is a Fellow of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.

Directorships of other listed entities in the last three years

Treasury Wine Estates Limited (1 September 2012 to present), Helloworld Travel Limited (4 October 2016 to present), Hiro Brands Limited (6 December 2021 to 30 November 2023).

Dr Andreas Schwer
PhD, MSc, MSE

Managing Director and Chief Executive Officer

Appointed: 11 December 2023

Board Committees:
Nominations Committee

Experience and Expertise

Dr Schwer was appointed as Chief Executive Officer in August 2022 and appointed as Managing Director on 11 December 2023.

An accomplished executive leader with deep international experience – including in Asia, the Middle East, Europe, and North America – Dr Schwer has had a varied career in the defence and space domains. His previous experience includes senior positions in the global defence industry, including fourteen years at Airbus Group and five years at the German defence company Rheinmetall AG. Dr Schwer has a thorough understanding of the Company's global operations, having acted, most recently, as President of EOS EMEA (Europe, Middle East, and Africa) for two years, during which time he oversaw the expansion of the company's operations in NATO and Middle Eastern markets. Among his qualifications, he holds a PhD in the field of system modelling and satellite engineering.

He is a member of the Nominations Committee.

Directorships of other listed entities in the last three years

Independent Director at Titomic Ltd (1 January 2020 to present).

Air Marshal Geoffrey Brown AO
BEng (Mech), MA (Strategic Studies)

Independent Non-executive Director

Appointed: 21 April 2016

Board Committees:
- People and Culture Committee (Chair)
- Nominations Committee

Experience and Expertise

Geoffrey retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institution of Engineers Australia and is a Fellow of the Royal Aeronautical Society. He is Chair of the Sir Richard Williams Foundation and Chairman of the Advisory Board of CAE Asia Pacific. He is Chair of the People and Culture Committee, a member of the Audit and Risk Committee and a member of the Nomination Committee.

Directorships of other listed entities in the last three years

Nil

The Hon Kate Lundy
HonLittD, GAICD

Independent Non-executive Director

Appointed: 23 March 2018

Board Committees:
- Data Security & Data Governance Committee (Chair)
- Audit and Risk Committee
- People and Culture Committee
- Nominations Committee

Experience and Expertise

Kate served as a Senator representing the Australian Capital Territory from 1996 to 2015. During this time, she held various front bench positions in both Government and Opposition, including the Minister for Sport, Multicultural Affairs and Assisting on Industry and Innovation and the Digital Economy.

Kate continues to be passionate about technology and innovation. Her focus is the positive impact of technology on society, culture and the economy. In 2017, the Australian National University awarded her a Doctor of Letters (honorary doctorate) for her "exceptional contributions to advocacy and policy for information communications and technology, for the ACT and nationally."

In 2017 Ms Lundy was inducted into the Pearcey Hall of Fame for "distinguished achievement and contribution to the development and growth of the Information and Communication Technology Industry". The Pearcey Foundation is named in honour of Dr Trevor Pearcey, an outstanding Australian ICT Pioneer, notable for his leadership of the project team that built one of the world's earliest digital computers, the CSIR Mark 1, later known as CSIRAC.

Kate is a Non-executive Director of the National Roads and Motoring Association, the Geospatial Council of Australia, the National Youth Science Forum and Chair to the Board of the Cyber Security Cooperative Research Centre and Chair of the Canberra Institute of Technology Board.

Directorships of other listed entities in the last three years

Nil

Mr David Black
BA(Hons) (Economics), FCA, MBA, GAICD

Independent Non-executive Director

Appointed: 1 January 2021

Board Committees:
- Audit and Risk Committee (Chair)
- People and Culture Committee
- Data Security & Data Governance Committee
- Nominations Committee

Experience and Expertise

Before retiring from the Deloitte Touche Tohmatsu Australia partnership in 2016, David spent 25 years with Deloitte in the UK and Australia. During that time David provided services to a range of clients including in the Defence, Manufacturing and Government sectors. David's experience includes working with growing start-up businesses, multinational corporations and the boards of ASX listed entities on complex accounting, internal and external auditing, risk management, corporate governance and due diligence engagements. David previously served as the audit partner of Deloitte Touche Tohmatsu for the Company for the years ending from June 2005 to December 2009 and June 2012 to June 2016.

Since his retirement from Deloitte, David has established a growing family business, The Coastal Brewing Company, and serves on six Government sector audit committees as an independent member, chairing one of those committees.

Directorships of other listed entities in the last three years

Nil

Mr Robert Nicholson
BSc, LLB, LLM, MBA, GAICD

Independent Non-executive Director

Appointed: 24 May 2023

Board Committees:
- Audit and Risk Committee
- Data Security & Data Governance Committee
- Nomination Committee

Experience and Expertise

Robert was a Partner at Herbert Smith Freehills (and predecessor firms) for 28 years. He served on the Freehills Board of Partners for 10 years and was the Chairman for 3 years in the lead-up to the firm's merger with Herbert Smith to create a global firm with 500 partners and 28 offices.

Robert is a director of Port of Melbourne, Alinta Energy, Baker Heart and Diabetes Institute, Landcare Australia and European Australian Business Council. He is a Senior Advisor to Herbert Smith Freehills.

Directorships of other listed entities in the last three years

Nil

Ms Deena Shiff
MSc (Econ), BA (Law)

Independent Non-executive Director

Appointed: 7 December 2021

Resigned: 31 January 2023

Board Committees:
- Audit and Risk Committee

Experience and Expertise

Ms Shiff resigned from the Board on 31 January 2023.

Deena has enjoyed a distinguished business career covering senior roles in corporate positions and the legal profession. She was the founding CEO of Telstra's corporate venture capital arm, Telstra Ventures, and Group Managing Director, Telstra Business. Previously, Deena was a partner in the leading law firm, Mallesons Stephen Jaques. She is currently Chair of the Advisory Board for the ARC Centre of Excellence for Automated Decisions and Society, Chair of the Advisory Board of the Australian Centre for China in the World, and Chair of the Australian Broadband Advisory Council.

Directorships of other listed entities in the last three years whilst a Director of the Company

Chair of Marley Spoon A.G. (15 June 2018 to present), Pro Medicus Limited (1 August 2020 to present), Appen Limited (15 May 2015 to 27 May 2022).

Mr Robert Kaye
LLB LLM

Independent Non-executive Director

Appointed: 13 September 2022

Resigned: 20 March 2023

Board Committees: Nil

Experience and Expertise

Mr Kaye resigned from the Board on 20 March 2023.

Robert is a barrister, mediator and professional Non-executive Director. Recognised for his strategic and commercially focused advice, Mr Kaye has acted for various commercial enterprises – both public and private – across media, retail, FMCG, property development, mining and engineering sectors. Drawing on his experience as a senior member of the NSW Bar, including serving on the Professional Conduct Committee and Equal Opportunity Committee, he has a strong emphasis on Board governance and is well versed in Board processes. Mr Kaye has significant cross-border experience, including corporate restructuring and M&A across North America, Europe, Asia, and the Australia and New Zealand region.

In addition to his role as Non-executive Director of Electro Optic Systems Holdings Limited, he is Chair and Non-executive Director of Collins Foods Limited, and a Non-executive Director of Magontec Limited, and FAR Limited. Mr Kaye was formerly Non-executive Chair of Spicers Limited and Non-executive Director of UGL Limited, HT&E Limited and Blue Sky Alternative Investments Limited and the Chair of the Macular Disease Foundation Australia.

Directorships of other listed entities in the last three years whilst a Director of the Company

Collins Foods Limited (7 October 2014 to present), Magontec Limited (29 July 2020 to present), FAR Limited (30 June 2021 to present).

Dr Ben Greene
BE (Hons), PhD in Applied Physics

Executive Director

Appointed: 11 April 2002

Resigned: 27 March 2023

Board Committees: Nil

Experience and Expertise

Dr Greene resigned from the Board on 27 March 2023.

Ben was involved in the formation of Electro Optic Systems Pty Limited. He is published in the subject areas of weapon system design, laser tracking, space geodesy, quantum physics, satellite design, laser remote sensing, and the metrology of time. He is Deputy Chair of the Western Pacific Laser Tracking Network (WPLTN) and has recently served as member of Australia's Prime Ministers Science, Engineering and Innovation Council (PMSEIC) and CEO of the Cooperative Research Centre for Space Environment Management.

Directorships of other listed entities in the last three years whilst a Director of the Company

Nil

2. Company Secretary

Ms Leanne Ralph
BBus (Acc & Fin majors), FGIA, GAICD

Appointed: 23 August 2022

Leanne was appointed as Company Secretary on 23 August 2022. She is an experienced Company Secretary with over 15 years in this field and holds this position for a number of ASX-listed entities. Ms Ralph is a fellow of the Governance Institute of Australia and a Graduate Member of the Australian Institute of Directors.

3. Principal activities

The principal activities of the Group are in the Space Systems and Defence Systems business.

The Company is listed on the Australian Securities Exchange.

4. Review of operations

A detailed review of operations is included on pages 3 to 19 of this financial report.

5. Going Concern

The financial report has been prepared on the going concern basis which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Note 1(c) to the financial statements details the specific factors upon which the Group's ability to continue as a going concern is dependent.

6. Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

7. Changes to the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

8. Share issues

There were no shares issued during the reporting period.

9. Share Options / Rights

During the year the Board determined to replace the Legacy LFSP and Legacy Employee Share Option Plan with the Omnibus Employee Incentive Plan ("OEIP"). No further issues of shares under this Legacy LFSP or Legacy Employee Share Option Plan are anticipated.

a) SHARE OPTIONS (OEIP)

Share options granted to Directors and executives

No options were granted to any Director of Electro Optic Systems Holdings Limited during or since the financial year.

1,625,417 share options were granted to the five most highly remunerated officers of the Group during the year.

Shareholder approval will be sought at the 2024 Annual General Meeting for a grant of share options to the CEO and Managing Director, Dr Andreas Schwer.

Share options on issue at year end or exercised during the year

There were 3,323,087 unlisted options outstanding as at the date of this report as per the table below.

Options	Issue Date	Expiry Date	Exercise Price
325,000	19 May 2020	18 May 2025	$4.75
45,000	15 March 2021	16 March 2026	$5.27
2,953,087	22 December 2023	31 December 2028	$0.50
3,323,087			

No share options were exercised during or since the financial year.

There were no shares or interests issued during or since the financial year as a result of exercise of an option.

During the year ended 31 December 2023, 220,000 share options lapsed due to the expiry of the exercise period and 130,000 share options were forfeited due to cessation of employment.

2,953,087 share options were issued on 22 December 2023 under the Omnibus Equity Incentive Plan and remain outstanding as at the date of this report.

To the extent that share options vest and are exercised in the future, the Company expects they will be settled from existing ordinary share capital already on issue within the employee share trust from unallocated shares from the Loan Funded Share Plan.

b) SHARE RIGHTS (OEIP)

Share rights granted to Directors and executives

No share rights were granted to any Director of Electro Optic Systems Holdings Limited during or since the financial year.

875,250 share rights were granted to the five most highly remunerated officers of the Group during the year.

Shareholder approval will be sought at the 2024 Annual General Meeting for a grant of share rights to the CEO and Managing Director, Dr Andreas Schwer.

Share rights on issue at year-end

1,341,117 share rights were issued on 22 December 2023 under the Omnibus Equity Incentive Plan and remain outstanding as at the date of this report.

No shares were issued during or since the financial year as a result of exercise of a share right.

To the extent that share rights vest and are exercised in the future, the Company expects they will be settled from existing ordinary share capital already on issue within the employee share trust from unallocated shares from the Loan Funded Share Plan.

c) LEGACY INCENTIVE PLANS - LOAN FUNDED SHARE PLAN ("LFSP") AND EMPLOYEE SHARE OPTION PLAN

Legacy Loan Funded Share Plan

Prior issues made under these Legacy LFSP consisted of:

Issue Date	Shares Issued	Issue Price
20/6/2018	5,135,000	$2.99
19/5/2020	2,315,000	$4.75
29/5/2020	2,500,000	$4.92
10/8/2020	860,000	$5.62
14/10/2020	150,000	$5.47
15/2/2021	1,250,000	$5.27
31/5/2021	150,000	$4.06

As no Loan Funded shares were issued during or since the financial year, the Company has provided no new interest free loans to the Directors or staff to acquire the shares under the Legacy LFSP.

As a result of a number of performance conditions and shares price hurdles not being met, as well as the resignation of certain employees, 6,611,875 Legacy LFSP shares lapsed during the year. This resulted in the total amount of the loans outstanding under the Legacy LFSP at year-end being $3,902,150 (2022: $27,785,506).

Loan funds under the Legacy LFSP are limited recourse in nature, meaning that the Company's recourse is limited to the shares. If at the date that the loan becomes repayable the Directors or employees shares are worth less than the outstanding balance of the loan, the Company cannot recover the difference from the Director or employee. Interest will not be payable on the outstanding balance of the loan.

All shares issued under the Legacy LFSP are held in an employee share trust, on behalf of all participants. The name of the Trust is EOS Loan Plan Pty Ltd as trustee for the Share Plan Trust. All shares under the Legacy LFSP are also subject to a holding lock until all conditions are satisfied and the loan is repaid.

The shares issued to Directors are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'. Directors are required to satisfy the Vesting Conditions in order for their Shares to vest. While Directors hold their Shares, they will be subject to Forfeiture Conditions and Directors will forfeit their Shares if either they fail to satisfy the Vesting Conditions or they cease to be employed or continue to provide services to a Group company in certain circumstances.

Once the Vesting Conditions have been satisfied, removed or lifted, the Shares become vested and Directors may deal with them in accordance with the rules of the Legacy LFSP subject to sale restrictions and other legal restrictions (such as under the Company's trading policy).

Reconciliation of Loan Funded Shares balances:

	Balance of shares outstanding at 31 December 2022	Lapses and other movements *	Balance of shares outstanding at 31 December 2023
Directors			
Mr David Black	150,000	(75,000)	**75,000**
Air Marshall Geoffrey Brown AO	200,000	(200,000)	**-**
The Hon Kate Lundy	200,000	(200,000)	**-**
Dr Ben Greene (resigned)	2,000,000	(2,000,000)	**-**
Other retired directors	550,000	(550,000)	**-**
Directors Total	**3,100,000**	**(3,025,000)**	**75,000**
Employees			
Dr James Bennett	97,500	(30,000)	**67,500**
Mr Matthew Jones	40,000	(40,000)	**-**
Other senior employees	4,164,375	(3,516,875)	**647,500**
Employees Total	**4,301,875**	**(3,586,875)**	**715,000**
Total, Directors and Employees	**7,401,875**	**(6,611,875)**	**790,000**

*The following conditions were not met in 2023:

- The share price hurdle of $9.50 by 30 June 2023, resulting in 75,000 shares issued to a Director lapsing.
- The expiry of the exercise period and loan term in 2023 resulting in 4,101,875 shares issued to staff and 400,000 shares issued to current Directors lapsing.
- Certain employees resigned from subsidiaries of the Group, resulting in 2,035,000 shares issued to them lapsing.

Legacy Employee Share Option Plan

As a result of a number of performance conditions and share price hurdles not being met, as well as the resignation of certain employees, 350,000 Legacy Employee Share Options lapsed during the year. The options issued are subject to both 'Vesting Conditions' and 'Forfeiture Conditions'.

Once the Vesting Conditions have been satisfied, removed or lifted, the options vest and employees may deal with them in accordance with the rules of the Plan subject to sale restrictions and other legal restrictions (such as under the Company's trading policy).

Reconciliation of Unlisted Options balances issued under the Legacy Employee Share Option Plan:

	2023 Number	2022 Number
Balance at beginning of the financial year	720,000	1,830,000
Lapsed during the year	(350,000)	(1,110,000)
Balance at end of the financial year	**370,000**	**720,000**
Exercisable at the end of the year	**-**	**192,500**

10.Subsequent events

Subsequent to year-end, EFA approval was received and the amendment to the finance facility agreement became effective and the $4.5m fee was paid to the lender.

Apart from the above, there have been no transactions or events of a material and unusual nature between the end of the reporting period and the date of the report likely, in the opinion of the Directors of the Company, to significantly affect the operations of the Group, the results of those operations, or state of affairs of the Group in future years.

11. Deed of Cross Guarantee

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited, entered into a deed of cross guarantee with two of its Australian wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, EM Solutions Pty Limited entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

12. Likely developments

The Group will continue to operate in the Space Systems and Defence Systems businesses. Please see the Review of Operations for further details.

13. Environmental regulations

In the opinion of the Directors the Group is in compliance with all applicable environmental legislation and regulations.

14. Ethical labour

The Group has established measures regarding fair labour practices and guidelines that create a respectful and safe work environment for our employees globally. The Group is committed to treating all of its employees with respect and strictly prohibits the use of slavery, forced labour and human trafficking. To prevent the occurrence of forced, compulsory or child labour, the Group has implemented local labour policies and practices to comply with the Modern Slavery Act. Any person who applies for employment with the Group does so on a voluntary basis and all employees are legally entitled to leave upon reasonable notice without penalty. In accordance with the Group's recruiting guidelines, offers of employment must be conditional upon successful completion of required background checks. Background checks are required to protect the safety of employees and to ensure that employees meet the Group's standards.

15. Diversity

The Group values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Group's diversity policy ("Diversity Policy") outlines its diversity objectives in relation to gender, age, cultural background, ethnicity, employment of veterans and other factors to leverage the widest pool of available talent. A copy of the Group's Diversity Policy is available on the Company's website.

Section 6 of the Diversity Policy states that the Group will establish appropriate and meaningful objectives for achieving gender and other forms of diversity.

The Group's current objectives are to:

- improve the participation of women in the workforce;
- reduce the number of workplace harassment;
- improve retention of staff; and
- encourage retention of staff.

As at 31 December 2023, the Group's gender diversity mix was as follows:

EOS Directors 2023	**Number of Personnel**	**Female**	**Female%**	**Male**	**Male%**
Board *	5	1	20%	4	80%

EOS Staff 2023	**Number of Personnel**	**Female**	**Female%**	**Male**	**Male%**
Senior Management*: CEO/CFO/COO/EVP	4	0	0%	4	100%
Australia	330	66	20%	264	80%
New Zealand	9	0	0%	9	100%
Singapore	20	6	30%	14	70%
United States	46	12	26%	34	74%
United Arab Emirates	40	6	15%	34	85%
Germany	1	1	100%	0	0%
Total Staff	**446**	**91**	**20%**	**355**	**80%**

*"Board" excludes the Managing Director who is included under "Senior Management" as CEO. "Senior Management" is defined as a manager who has a relatively high leadership role in the day-to-day responsibilities of managing the Company.

The proportion of women to total workforce has reduced from 21% over recent years to 20% at the end of 2023.

16. Dividends

The Directors recommend that no dividend be paid and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this report.

17. Director Shareholdings

The following table sets out each Director's relevant interest in shares, restricted ordinary shares under the Legacy LFSP of the Company or a related body corporate as at the date of this report.

Director	Fully paid ordinary shares	Fully paid ordinary shares restricted – LTI plans
Mr Garry Hounsell	500,000	-
Dr Andreas Schwer*	-	-
Air Marshal Geoffrey Brown AO	26,315	-
The Hon Kate Lundy	23,490	-
Mr David Black	12,963	75,000
Mr Robert Nicholson*	120,000	-

* Director for part of the financial year

18. Indemnification and Insurance of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred as such a Director or Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the coverage provided and the amount of the premium. The Company has agreed to indemnify the current Directors, Company Secretary and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its controlled entities, except where to do so would be prohibited by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

To the extent permitted by law and professional regulations, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. The indemnity does not apply to any Loss resulting from Ernst & Young Australia's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

19. Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member).

During the reporting period, the Nominations and Remuneration Committee was split into two separate committees, the People and Culture Committee and the Nominations Committee. A further Board committee was created during the year named the Data Security and Data Governance Committee to assist the Board to discharge its duties in relation to data security, data governance, cybersecurity and related cultural and technological risks. The charters for each committee can be found on the Company web site.

During the financial year, the following meetings were held:

- 13 Board meetings;
- 7 Audit and Risk Committee meetings;
- 4 People and Culture Committee meetings;
- 3 Data Security and Data Governance Committee meetings; and
- No meetings of the Nomination Committee were held during the year.

	Board of Directors		Audit and Risk Committee		People and Culture Committee		Data Security and Data Governance committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr Garry Hounsell	13	13	-	-	-	-	-	-
Dr Andreas Schwer[1]	1	1	-	-	-	-	-	-
Air Marshal Geoff Brown AO	13	13	3	3	4	4	-	-
The Hon Kate Lundy	13	13	7	7	4	4	3	3
Mr David Black	13	13	7	7	4	4	3	3
Mr Robert Nicholson[2]	6	5	4	3	-	-	3	3
Dr Ben Greene[3]	3	3	-	-	-	-	-	-
Ms Deena Shiff[4]	1	1	-	-	-	-	-	-
Mr Robert Kaye[5]	3	3	-	-	-	-	-	-

[1] Appointed 11 December 2023
[2] Appointed 24 May 2023
[3] Resigned 27 March 2023
[4] Resigned 31 January 2023
[5] Resigned 20 March 2023

Audit and Risk Committee
The members of the Committee during the year were Mr David Black (Chair), Air Marshal Geoffrey Brown AO, the Hon Kate Lundy, Ms Deena Shiff and Mr Robert Nicholson. Ms Deena Shiff resigned from the Board, and therefore the Committee, on 31 January 2023. Mr Robert Nicholson was appointed to the Board on 24 May 2023 and was appointed to the Committee on this day. Air Marshall Geoffrey Brown AO resigned from the Committee on 23 May 2023.

The Audit and Risk Committee have reviewed the Group's risk management profile during the year to satisfy themselves that it continues to be sound and that the Group is operating with due regard to the risk appetite set by the Board. The Chief Financial Officer prepares a risk profile for regular review by the Committee and the Board of Directors.

People and Culture Committee
The current members of the Committee are Air Marshal Geoffrey Brown AO (Chair), Mr David Black and the Hon Kate Lundy.

Nominations Committee
All Board members are members of the Nominations Committee.

Data Security and Data Governance Committee
The current members of the Committee are Hon Kate Lundy (Chair), Mr David Black and Mr Robert Nicholson.

20. Remuneration report (Audited)

CONTENTS

a) REMUNERATION REPORT OVERVIEW

The Key Management Personnel (KMP) of the Group, who had the authority and responsibility for planning, directing and controlling the activities of the Group during the year were:

Name	Role	Term as KMP
Non-executive Directors		
Mr Garry Hounsell	Chair, Non-executive Director	Full financial year
Air Marshal Geoffrey Brown AO	Non-executive Director	Full financial year
The Hon Kate Lundy	Non-executive Director	Full financial year
Mr David Black	Non-executive Director	Full financial year
Mr Robert Nicholson	Non-executive Director	Appointed 24/05/23
Ms Deena Shiff	Non-executive Director	Resigned 31/01/23
Mr Robert Kaye	Non-executive Director	Resigned 20/03/23
Executive Directors		
Dr Andreas Schwer	Managing Director	Appointed 11/12/23
Dr Ben Greene	Executive Director	Resigned from Board on 27/03/23
Executives		
Dr Andreas Schwer	Chief Executive Officer	Full financial year
Mr Clive Cuthell	Chief Financial Officer	Full financial year
Dr James Bennett	Acting EVP Space Systems	Full financial year
Mr Ian Cook	EVP Defence Systems (Australia)	Appointed 02/11/23
Mr Matthew Jones	Acting EVP Defence Systems	Ceased employment 02/11/23

This report outlines the remuneration arrangements in place for Directors and Executives of the Group.

The Directors are responsible for remuneration policies and packages applicable to the Board members and Executives of the Group. The Group has a separate People and Culture Committee. The remuneration policy is to ensure the remuneration package properly reflects the persons duties and responsibilities.

Remuneration report (continued)

b) OVERVIEW OF NON-EXECUTIVE DIRECTORS REMUNERATION

In accordance with best practice corporate governance, the structure of Non-executive Director and senior manager remuneration is separate and distinct.

Non-executive Director remuneration reflects the Group's desire to attract, motivate and retain experienced directors and to ensure their active participation in advocating for the interests of shareholders, in areas such as corporate governance, remuneration, compliance, risk and Group strategy. The size of the remuneration pool that can be paid to Non-executive Directors is governed by resolutions passed at a General Meeting of shareholders.

Each Non-executive Director receives a fee for serving as a Director of the Company. The level of Director remuneration has been fixed at the same level since 2020 and is as follows:

Role	Fee 2023 $	Fee 2022 $
Board Chair	140,000	140,000
Non-executive director	70,000	70,000
Committee Chair	-	-
Committee Member	-	-

All fees presented above include statutory superannuation, where applicable. Directors may be reimbursed for expenses reasonably incurred in attending to the Group's affairs.

The level of fees received by the Non-executive Directors from within the shareholder approved maximum limit of $1,000,000 per annum (excluding options), approved by shareholders on 29 May 2020 has not increased since 2020. The manner in which this limit is apportioned amongst Directors, and the policy of granting options to Directors, is determined by Directors within the limit set by shareholders. Following a review, the Board has decided to increase the level of Director fees paid, to $175,000 for the Chair and $100,000 for each Non-executive Director, effective from 1 January 2024.

No options were granted to or exercised by any Director during 2023.

Remuneration report (continued)

i. Non-executive Director remuneration

The following tables disclose the remuneration of the Non-executive Directors of the Company during the year:

2023	Short term		Post-Employment		Equity	
$	**Salary & Fees**	**Non-monetary**	**Super-annuation**	**Sub-total**	**Loan Funded Share Plan****	**Total**
Mr Garry Hounsell	126,411	-	13,589	140,000	-	140,000
Air Marshal Geoffrey Brown AO	63,206	-	6,794	70,000	(78,571)	(8,571)
The Hon Kate Lundy	63,206	-	6,794	70,000	(78,571)	(8,571)
Mr David Black	63,206	-	6,794	70,000	(32,940)	37,060
Mr Robert Nicholson*	42,339	-	-	42,339	-	42,339
Ms Deena Shiff*	15,837	-	1,663	17,500	-	17,500
Mr Robert Kaye*	15,837	-	1,663	17,500	-	17,500
Total	**390,042**	**-**	**37,297**	**427,339**	**(190,082)**	**237,257**

*Non-executive Director for part of the financial year

** Expense reversal relating to LFSP lapsed shares

2022	Short term		Post-Employment		Equity	
$	**Salary & Fees**	**Non-monetary**	**Super-annuation**	**Sub-total**	**Loan Funded Share Plan**	**Total**
Mr Garry Hounsell	13,190	-	1,385	14,575	-	14,575
Lt Gen Peter Leahy AC	126,985	-	13,015	140,000	1,321	141,321
Air Marshal Geoffrey Brown AO	63,491	-	6,509	70,000	1,470	71,470
The Hon Kate Lundy	63,491	-	6,509	70,000	1,470	71,470
Mr David Black	63,491	-	6,509	70,000	3,847	73,847
Ms Deena Shiff	63,491	-	6,509	70,000	-	70,000
Mr Robert Kaye	23,928	-	2,512	26,440	-	26,440
Total	**418,067**	**-**	**42,948**	**461,015**	**8,108**	**469,123**

Remuneration report (continued)

c) OVERVIEW OF EXECUTIVE REMUNERATION

The Group aims to reward executives with a level and mix of remuneration commensurate with their position, responsibilities and performance, in a way that aligns with business strategy so as to:

- reward executives for Group and individual performance against targets set by reference to suitable benchmarks;
- align executive's interests with those of shareholders; and
- ensure that the total remuneration paid is competitive by market standards.

i. Structure

The remuneration paid to executives is set with reference to prevailing market levels and typically comprises a fixed salary, short-term incentive and a long-term incentive, comprising share options and share rights. Incentives are granted to executives in line with their respective levels of experience and responsibility. Details of the amounts paid, and the number of options granted to executives are disclosed elsewhere in the Directors' Report.

2,953,087 share options and 1,341,117 share rights were issued to executives during 2023.

No options or share rights were granted to or exercised by any executive during 2022.

ii. Employment contracts

Executives and senior management are employed under standard employment contracts which contain no unusual terms. Beyond accrued leave benefits, there are no other termination payments or golden parachutes for any Directors or Senior Executives. The CEO and the other senior management have 90-day notice periods under their employment contracts.

Remuneration report (continued)

iii. *Executive remuneration*

No executives are employed by the holding company. The following table discloses the remuneration of the executives of the Group for the period during which they were considered key management personnel:

2023	Short term			Post-employment	Share-based				Total
	Salary & fees $	Bonus $	Other benefits $	Superannuation $	Loan Funded Share Plan $	OEIP Options/ Rights $	Other long term benefits $	Termination benefits $	$
Dr Andreas Schwer	711,471	518,000	34,509	-	-	383,600[3]	-	-	1,647,580
Mr Clive Cuthell	657,207	275,280	42,787	13,699	-	226,507	4,183	-	1,219,663
Dr James Bennett	329,435	42,250	-	30,762	2,228	44,723	13,431	-	462,829
Mr Matthew Jones[1]	304,231	50,750	-	32,074	(31,450)	-	-	145,821	501,426
Mr Ian Cook[2]	47,792	20,583	6,789	4,813	-	-	323	-	80,300
Total	**2,050,136**	**906,863**	**84,085**	**81,348**	**(29,222)**	**654,830**	**17,937**	**145,821**	**3,911,798**

[1] ceased employment 2 November 2023

[2] commenced employment 2 November 2023

[3] Although subject to shareholder approval, the Group is required to commence recognition of the fair value expense of the proposed grant.

2022*	Short term			Post-employment	Share-based			Total
	Salary & fees $	Bonus $	Other benefits $	Superannuation $	Loan Funded Share Plan $	Other long term benefits $	Termination benefits $	$
Dr Andreas Schwer	291,666	-	41,030	-	-	-	-	332,696
Mr Clive Cuthell	171,541	100,000	26,265	27,500	-	3,171	-	328,477
Dr James Bennett	181,137	-	-	15,835	(7,109)	28,706	-	218,569
Mr Matthew Jones	167,622	-	-	16,881	(8,784)	8,197	-	183,916
Dr Ben Greene	787,170	-	26,163	27,500	14,700	29,216		884,749
Mr Michael Lock	202,117	-	-	18,831	4,301	-	-	225,249
Mr Peter Short	260,458	-	-	38,374	(20,321)	19,953	193,537	492,001
Mr Grant Sanderson	229,625	-	-	21,269	(16,549)	11,788	-	246,133
Mr Glen Tindall	338,000	-	-	22,131	-	-	-	360,131
Mr Tahir Khan	122,542	-	-	11,623	-	-	-	134,165
Total	**2,751,878**	**100,000**	**93,458**	**199,944**	**(33,762)**	**101,031**	**193,537**	**3,406,086**

* All KMP during 2022 were key management personnel for only part of the financial year.

Remuneration report (continued)

iv. Short-term performance incentives (STI)

Executives and senior management have a target STI opportunity based on the accountabilities of their specific role and impact on the Group's performance. Each year appropriate targets and key performance indicators (KPI's) are determined for each individual to reflect the core drivers of short-term performance and to provide a framework for delivering sustainable value to the Group, its shareholders and customers.

Each participant is assigned five to six key performance indicators (KPIs) that encompass both Group and individual business unit financial measures, as well as non-financial performance measures. A baseline target and a stretch objective are set for each KPI. The specific KPIs assigned can vary between participants based on their roles, examined on a case-by-case basis. The KPI measurements and their corresponding weightings are evenly distributed among the total count of KPIs allocated to each participant.

The STI is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the CEO (and in the case of the CEO, by the Board). The STI is paid in cash following the release of this Financial Report.

Group earnings, revenue, cash flow and business unit profits are measures against which the Group's short-term financial performance is assessed. Non-financial hurdles relate primarily to the delivery of team or business unit objectives and projects.

***v. Long-term incentives* – Omnibus Employee Incentive Plan ("OEIP")**

During the year a new Group LTI plan, the OEIP, was established to replace the legacy Loan Funded Share Plan ("LFSP"). It is anticipated that annual grants will be made to senior managers under the OEIP to align remuneration with the creation of shareholder value over the long term.

The grant under the OEIP comprises:

A. Share options with share price vesting targets intended to drive performance that will generate significant shareholder value; and
B. Share rights, with service-based vesting that are intended to retain the management team.

In both cases, the value of the reward is linked to the future share price, providing strong alignment with shareholders.

There is not expected to be any change in share capital as a result of the 2023 OEIP allocation as it is anticipated this allocation will be funded by shares already issued and held in trust as lapsed shares from the legacy LFSP.

The structure of the OEIP is detailed below with full details of offers included in Note 23 to the financial statements.

Remuneration report (continued)

a) Share Options (OEIP)

Vesting Principles
The options will vest if the vesting conditions have been met on a Testing Date in the manner set out in the tables below, provided that the employee continues to provide services to the Group on the date of vesting.

<table>
<tr><th>Measures and hurdles</th><th>Testing Dates</th><th>Exercise Period</th></tr>
<tr><td>50% of options vest if the Share Price Hurdle of $1.20 is met for a period of 20 trading days (not necessarily consecutive) prior to a Testing Date.</td><td rowspan="2">31 December 2024
31 December 2025
31 December 2026</td><td rowspan="2">Share options are exercisable from Vesting Date until 31 December 2028</td></tr>
<tr><td>100% of options vest if the Share Price Hurdle of $3.00 is met for a period of 20 trading days (not necessarily consecutive) prior to a Testing Date.</td></tr>
</table>

Options will vest on a linear pro-rata basis for share price performance between $1.20 and $3.00.

b) Share Rights (OEIP)

Vesting Principles
The rights will vest in the below proportions based purely on a service condition if the Employee remains employed by the Group on the below hurdle dates.

Measure	Hurdle
One third of rights vest	Continued employment on 31 December 2024
One third of rights vest	Continued employment on 31 December 2025
One third of rights vest	Continued employment on 31 December 2026

Remuneration report (continued)

vi. Long Term Incentive - Legacy Plans

During the year the Board determined to replace the Legacy Loan Funded Share Plan ("LFSP") and the Legacy Employee Share Option Plan with the OEIP as the long-term incentive for management.

Of the 7,401,875 shares allocated at the beginning of the year to the Legacy LFSP, 6,611,875 shares were forfeited during the year, either as a result of not meeting performance conditions, expiry or cessation of employment. 790,000 Legacy LFSP shares remain at the end of the financial year.

Of the 720,000 remaining unlisted options at the beginning of the year issued under the Legacy Employee Share Option Plan, 350,000 options were forfeited during the year, either as a result of not meeting performance conditions, expiry or cessation of employment. 370,000 Legacy Employee Share Option Plan options remain at the end of the financial year.

It is not intended that any future grants will be made under the Legacy LFSP or Legacy Employee Share Option Plan. The employee options have similar vesting and forfeiture conditions as those issued under the Legacy LFSP.

Legacy LFSP

Details of the historical grants under the Legacy LFSP are outlined below.

Vesting Principles
The shares will vest at the end of each 'Vesting Period' in the manner set out in the tables below, provided that the following conditions are met:

(a) Directors and employees continue to provide services to the Group on each of the vesting dates (or such other date on which the Board makes a determination as to whether the Vesting Condition has been met); and
(b) the performance hurdles set out below are satisfied, which relate to the Company's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for Shares to vest under each Tranche.

Elements of remuneration related to performance
There are service conditions and performance conditions both market and non-market conditions attached to the restricted fully paid ordinary shares issued under the share plan.

The overall performance of the Company as measured by the share price will determine whether the shares vest and whether the Director or executive receives any benefit from these shares. The time service condition was chosen by the Board as an appropriate condition as it helps in the retention and motivation of staff.

The ordinary restricted shares were issued to Directors, senior executives and senior staff under the Legacy LFSP. These ordinary restricted shares are subject to performance and vesting conditions.

Further measures, hurdles and sale restrictions
Employees and Directors may be subject to individualised measures and hurdles associated with any shares issued to them under to the Legacy LFSP. To the extent shares vest, they will be subject to sale restrictions as outlined in the tables below for each separate issue of Loan Funded Shares.

Remuneration report (continued)

Phase 1: Issue of 5,135,000 shares on 20 June 2018 at $2.99 per share
Under the terms of the Legacy LFSP, once vested, the Director or executive has the right to acquire a share at the specified price during the exercise period until the expiry date. Due to the expiry of the exercise period, the remaining vested but unexercised shares from the 20 June 2018 issue lapsed during the reporting period.

Phase 2: Issue of LFSP shares during the year ended 31 December 2020, including:

On 19 May 2020, the issue of 2,315,000 ordinary restricted shares to employees at an issue price of $4.75.

On 29 May 2020, the issue of 2,500,000 ordinary restricted shares to Directors at an issue price of $4.92.

On 10 August 2020, the issue of 860,000 ordinary restricted shares to employees at an issue price of $5.62.

On 14 October 2020, the issue of 150,000 ordinary restricted shares to employees at an issue price of $5.47.

Phase 2 TRANCHE A – Senior Employees - (applies to 50% of the total number of shares issued)	
Measures and hurdles	**Vesting period**
A share Price Hurdle of $9.50 by 31 December 2024 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2024)	The period of two calendar years ending 31 December 2024

Phase 2 TRANCHE B – Senior Employees (applies to 50% of the total number of Shares issued)	
Measures and hurdles	**Vesting period**
A Share Price Hurdle of $11.50 by 31 December 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2025)	The period of four calendar years ending 31 December 2026

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, the unvested Shares will be forfeited.

Under Phase 2 Directors have also imposed additional Vesting Conditions for some senior employees under the terms of the Legacy LFSP which specifically relate to the performance of their business sectors within the Group. These conditions are outlined in Note 23 of the financial statements and are in addition to the above Vesting Conditions.

As at 31 December 2023, there remains 412,500 LFSP shares from the Phase 2 offers.

Remuneration report (continued)

Phase 3: Issue of shares on 15 March 2021

On 15 March 2021, the issue of 1,250,000 ordinary shares to staff at a price of $5.27 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

Phase 3 TRANCHE A – Senior Employees (applies to 50% of the total number of shares issued)	
Measures and hurdles	**Vesting period**
A share Price Hurdle of $9.50 by 30 June 2026 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2026)	The period of two calendar years ending 30 June 2026

Phase 3 TRANCHE B – Senior Employees (applies to 50% of the total number of shares issued)	
Measures and hurdles	**Vesting period**
A Share Price Hurdle of $11.50 by 30 June 2028 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2028)	The period of four calendar years ending 30 June 2028

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, the unvested Shares will be forfeited.

Directors have also imposed Vesting Conditions for some senior employees under the terms of the Legacy LFSP which specifically relate to the performance of their business sectors within the Group. These conditions are outlined in Note 23 of the financial statements are in addition to the above Vesting Conditions.

As at 31 December 2023, there remains 302,500 LFSP shares from the Phase 3 offers.

Remuneration report (continued)

Phase 4: Issue of shares on 31 May 2021

On 31 May 2021 the issue of 150,000 ordinary shares to a Director as approved by shareholders at a price of $4.06 being the 20-day volume weighted average price up to and including the trading day immediately prior to the date of issue.

The Tranche A shares (50% of the total issued) did not vest and lapsed on 30 June 2023.

The Tranche B shares (50% of the total issued) remain on issue and subject to the below:

Phase 4 TRANCHE B – Director (applies to 50% of the total number of Shares issued)	
Measures and hurdles	**Vesting period**
A Share Price Hurdle of $11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025)	The period of four calendar years ending 30 June 2025

If the above Vesting Conditions are not satisfied, or if the Board determines that they cannot be satisfied, the unvested Shares will be forfeited.

As at 31 December 2023, there remains 75,000 LFSP shares from the Phase 4 offers.

Remuneration report (continued)

d) KMP EQUITY HOLDINGS AND OTHER TRANSACTIONS

The following table sets out each key management personnel's equity holdings (represented by holdings of fully paid ordinary unrestricted shares in Electro Optic Systems Holdings Limited).

	Number of shares				
	1 January 2023	Purchased during the year	Sold during the year	Ceased to be KMP	31 December 2023
Mr Garry Hounsell	500,000	-	-	-	500,000
Air Marshal Geoffrey Brown AO	15,856	10,459	-	-	26,315
The Hon Kate Lundy	18,860	4,630	-	-	23,490
Mr David Black	12,963	-	-	-	12,963
Mr Robert Nicholson[1]	-	120,000	-	-	120,000
Dr Ben Greene[2]	4,012,139	-	-	(4,012,139)	-
Ms Deena Shiff[3]	-	-	-	-	-
Mr Robert Kaye[4]	112,555	-	-	(112,555)	-
Dr Andreas Schwer	-	-	-	-	-
Mr Clive Cuthell	-	-	-	-	-
Dr James Bennett	-	-	-	-	-
Mr Matthew Jones[5]	1,797	-	-	(1,797)	-
Mr Ian Cook[6]	-	-	-	-	-
Total	**4,674,170**	**135,089**	**-**	**(4,126,491)**	**682,768**

The following table sets out each key management personnel's equity holdings (represented by holdings of restricted fully paid ordinary shares in Electro Optic Systems Holdings Limited issued under the Legacy LFSP).

	Number of Legacy LFSP shares					
	1 January 2023	Purchased during the year	Sold during the year	Lapsed during the year	Ceased to be KMP	31 December 2023
Mr Garry Hounsell	-	-	-	-	-	-
Air Marshal Geoffrey Brown AO	200,000	-	-	(200,000)	-	-
The Hon Kate Lundy	200,000	-	-	(200,000)	-	-
Mr David Black	150,000	-	-	(75,000)	-	75,000
Mr Robert Nicholson[1]	-	-	-	-	-	-
Dr Ben Greene[2]	2,000,000	-	-	-	(2,000,000)	-
Ms Deena Shiff[3]	-	-	-	-	-	-
Mr Robert Kaye[4]	-	-	-	-	-	-
Dr Andreas Schwer	-	-	-	-	-	-
Mr Clive Cuthell	-	-	-	-	-	-
Dr James Bennett	97,500	-	-	(30,000)	-	67,500
Mr Matthew Jones[5]	40,000	-	-	-	(40,000)	-
Mr Ian Cook[6]	-	-	-	-	-	-
Total	**2,687,500**	**-**	**-**	**(505,000)**	**(2,040,000)**	**142,500**

[1] Appointed 24 May 2023
[2] Resigned 27 March 2023
[3] Resigned 31 January 2023
[4] Resigned 20 March 2023
[5] Ceased employment 2 November 2023
[6] Commenced employment 2 November 2023

Remuneration report (continued)

The following table sets out key management personnel's equity holdings represented by holdings of unvested share options and share rights under the new Omnibus Employee Incentive Plan released in 2023.

Subject to the rules of the OEIP, no options or rights will vest if the conditions are not satisfied, subject to the discretion of the Board (and ASX Listing Rules, as applicable) hence the minimum value of the option and rights yet to vest is nil. The maximum value of the options and rights yet to vest has been determined as the amount of the grant date fair value of the options and rights that is yet to be expensed.

	Number of OEIP Share Rights							
	1 January 2023	Share rights issued during the year	Other movement during the year	31 December 2023	Grant date	Fair value of Grant per Right $	Financial years in which options may vest	Maximum total value of grant yet to expense $
Mr Clive Cuthell	-	744,000	-	744,000	21/4/23	$0.575	2024 2025 2026	327,023
Dr James Bennett	-	81,250	-	81,250	14/7/23	$1.090	2024 2025 2026	71,555
+Total	**-**	**825,250**	**-**	**825,250**				**398,578**

	Number of OEIP Share Options							
	1 January 2023	Share options issued during the year	Other movement during the year	31 December 2023	Grant date	Fair value of Grant per Option $	Financial years in which options may vest	Maximum total value of grant yet to expense $
Mr Clive Cuthell	-	1,240,000	-	1,240,000	21/4/23	$0.275	2024 2025 2026	215,270
Dr James Bennett	-	135,417	-	135,417	14/7/23	$0.717	2024 2025 2026	69,379
Total	**-**	**1,375,417**	**-**	**1,375,417**				**284,649**

Shareholder approval will be sought at the 2024 Annual General Meeting for a grant of 1,260,000 share rights and 2,100,000 share options to the Managing Director and CEO, Dr Andreas Schwer. Although subject to shareholder approval, the Group is required to commence recognition of the fair value expense of the proposed grant. As such, if approved by shareholders, the maximum total future value yet to expense is expected to be $553,830 for share rights and $364,570 for share options, based on the fair value determined at the time recognition commenced.

Remuneration report (continued)

e) COMPANY PERFORMANCE AND SHAREHOLDER RETURNS

The table below sets out summary information about the Company's earnings and movements in shareholder wealth for the last five financial years.

	31 December 2023 $'000	31 December 2022 $'000	31 December 2021 $'000	31 December 2020 $'000	31 December 2019 $'000
Revenue	219,253	137,912	212,331	180,182	165,385
Net (loss)/profit before tax	(40,193)	(124,839)	(4,612)	(29,901)	21,397
Net (loss)/profit after tax	(34,107)	(115,561)	(13,843)	(25,208)	17,643

	31 December 2023 $	31 December 2022 $	31 December 2021 $	31 December 2020 $	31 December 2019 $
Share price at start of year	0.49	2.34	5.91	7.42	2.45
Share price at end of year	1.04	0.49	2.34	5.91	7.42
Dividends paid	-	-	-	-	-

People and Culture Committee

The current members of the People and Culture Committee are Air Marshal Geoffrey Brown AO (Chair), Mr David Black and the Hon Kate Lundy.

The People and Culture Committee provide advice, recommendations and assistance to the Board with respect to people and culture matters. The Committee advises the Board on remuneration policies and practices for the Board, the CEO, the Chief Financial Officer (CFO), senior executives and other persons whose activities, individually or collectively, affect the financial soundness of the Company. The Committee may seek independent advice from external advisors on related matters.

The policies and practices are designed to:

a) enable the Company to attract, retain and motivate Directors, executives and employees who will create value for shareholders within the Company's values and risk appetite, by providing remuneration packages that are equitable and externally competitive;
b) be fair and appropriate having regard to the performance of the Company and the relevant Director, executive or employee; and
c) comply with relevant legal requirements.

21. Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors have formed this view based on the fact that the nature and scope of each type of non-audit service provided means that the audit independence was not compromised.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are contained in Note 33 to the financial statements.

22. Auditor's independence declaration

The auditor's independence declaration is included on page 48 of the annual report.

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Garry Hounsell
Director and Chair of the Board of Directors

Dated at Canberra this 28th day of February 2024

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Auditor's Independence Declaration to the Directors of Electro Optic Systems Holdings Limited

As lead auditor for the audit of the financial report of Electro Optic Systems Holdings Limited for the financial year ended 31 December 2023, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Electro Optic Systems Holdings Limited and the entities it controlled during the financial year.

Ernst + Young

Ernst & Young

Ben Tansley
Partner
28 February 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 $ '000	2022 $ '000
Continuing operations			
Revenue	3(a)	219,253	137,912
Other income	3(a)	2,516	1,860
Foreign exchange gain	3(b)	892	12,666
Raw materials and consumables used		(128,049)	(87,455)
Changes in inventory work in progress		4,375	(3,942)
Employee benefits expense	3(b)	(57,273)	(63,005)
Occupancy costs		(2,050)	(1,891)
Administration expenses		(29,962)	(23,262)
Other expenses		(1,930)	(3,142)
Finance cost	3(b)	(35,582)	(14,252)
Depreciation of property, plant and equipment	3(b)	(6,356)	(4,324)
Depreciation of right of use assets	3(b)	(4,430)	(5,138)
Amortisation of intangible assets	3(b)	(1,597)	(1,597)
Impairment of assets	13	-	(7,315)
(Loss) before tax from continuing operations		**(40,193)**	**(62,885)**
Income tax benefit	5	6,086	9,278
(Loss) for the year from continuing operations		**(34,107)**	**(53,607)**
Discontinued Operations			
(Loss) after tax for the year from discontinued operations	6	-	(61,954)
(Loss) for the year		**(34,107)**	**(115,561)**
Attributable to:			
Owners of the Company	24	(33,275)	(114,540)
Non-controlling interests		(832)	(1,021)
		(34,107)	**(115,561)**
Other comprehensive income			
Items that may be reclassified in future to profit or loss			
Exchange differences on translation of foreign operations		(501)	2,100
Total comprehensive (loss) for the year		**(34,608)**	**(113,461)**
Attributable to:			
Owners of the Company		(33,776)	(112,440)
Non-controlling interests		(832)	(1,021)
		(34,608)	**(113,461)**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

		2023	2022
	Note	**Cents per share**	**Cents per share**
Basic and diluted (loss)/earnings per share			
From continuing operations	4	(20.9 cents)	(35.8 cents)
From discontinued operations	4	-	(42.2 cents)
Total		**(20.9 cents)**	**(78.0 cents)**

Notes to the financial statements are included on pages 54 to 131.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2023

	Note	2023 $ '000	2022 $ '000
CURRENT ASSETS			
Cash and short-term deposits	25	70,997	21,681
Trade and other receivables	7	8,466	7,419
Tax receivable		-	12,245
Security deposits	32	21,086	-
Contract asset	8	29,090	127,899
Inventories	9	73,397	74,841
Prepayments	10	16,384	17,591
TOTAL CURRENT ASSETS		**219,420**	**261,676**
NON-CURRENT ASSETS			
Contract asset	8	38,946	36,520
Deferred tax asset	5	8,950	3,326
Security deposits	32	45,970	35,588
Right of use assets	11	19,783	18,252
Goodwill	12	12,373	12,373
Intangible assets	14	18,283	12,446
Property, plant and equipment	15	29,508	37,217
TOTAL NON-CURRENT ASSETS		**173,813**	**155,722**
TOTAL ASSETS		**393,233**	**417,398**
CURRENT LIABILITIES			
Trade and other payables	16	40,804	43,179
Contract liabilities	17	20,587	22,168
Secured borrowings	18	19,875	21,391
Unsecured borrowings	18	-	1,904
Lease liabilities	19	4,876	3,939
Tax payable		3,584	-
Provisions	20	25,769	12,212
TOTAL CURRENT LIABILITIES		**115,495**	**104,793**
NON-CURRENT LIABILITIES			
Secured Borrowings	18	44,947	49,443
Lease liabilities	19	19,043	20,507
Provisions	20	14,674	9,563
TOTAL NON-CURRENT LIABILITIES		**78,664**	**79,513**
TOTAL LIABILITIES		**194,159**	**184,306**
NET ASSETS		**199,074**	**233,092**
EQUITY			
Issued capital	21	432,248	432,248
Reserves	22	12,633	12,545
Accumulated losses	24	(241,774)	(208,499)
Equity attributable to owners of the Company		203,107	236,294
Non-controlling interests		(4,033)	(3,202)
TOTAL EQUITY		**199,074**	**233,092**

Notes to the financial statements are included on pages 54 to 131.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

2023	Accumulated losses $'000	Issued capital $'000	Foreign currency translation reserve (FCTR) $'000	Employee equity settled benefits reserve $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total Equity $'000
At 1 January 2023	**(208,499)**	**432,248**	**277**	**12,268**	**236,294**	**(3,202)**	**233,092**
Loss for the year	(33,275)	-	-		(33,275)	(832)	(34,107)
Exchange differences arising on translation of foreign operations	-	-	(501)		(501)	-	(501)
Total comprehensive profit for the year	**(33,275)**	**-**	**(501)**		**(33,776)**	**(832)**	**(34,608)**
Recognition of share-based payments expense		-	-	589	589	-	589
At 31 December 2023	**(241,774)**	**432,248**	**(224)**	**12,857**	**203,107**	**(4,033)**	**199,074**
2022							
At 1 January 2022	**(93,959)**	**413,728**	**(1,823)**	**13,390**	**331,336**	**(2,181)**	**329,155**
Loss for the year before reclassification from FCTR	(110,365)	-	-	-	(110,365)	(1,021)	(111,386)
Reclassification of FCTR Loss on disposal of foreign operations	(4,175)	-	4,175	-	-	-	-
(Loss)/Profit for the year	**(114,540)**	**-**	**4,175**	**-**	**(110,365)**	**(1,021)**	**(111,386)**
Exchange differences arising on translation of foreign operations	-	-	(2,075)	-	(2,075)	-	(2,075)
Total comprehensive (loss)/profit for the year	**(114,540)**	**-**	**2,100**	**-**	**(112,440)**	**(1,021)**	**(113,461)**
Issue of 12,500,000 equity shares at $1.20 per share on 4 July 2022 (Net of issuance cost of $583,000)	-	14,417	-	-	14,417	-	14,417
Issue of 168,737 equity shares at $1.20 per share on 27 July 2022 under the share purchase plan	-	203	-	-	203	-	203
Issue of 7,653,040 equity shares at $0.5096 per share on 13 Oct 2022 under financing arrangements	-	3,900	-	-	3,900	-	3,900
Recognition of share-based payments expense (reversal)	-	-	-	(1,122)	(1,122)	-	(1,122)
At 31 December 2022	**(208,499)**	**432,248**	**277**	**12,268**	**236,294**	**(3,202)**	**233,092**

Notes to the financial statements are included on pages 54 to 131.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 $ '000	2022 $ '000
Cash flows from operating activities			
Receipts from customers		325,472	145,889
Payments to suppliers and employees		(215,914)	(188,637)
Income tax received/(paid)		16,747	(1,014)
Interest and bill discounts received		1,010	230
Interest and other costs of finance paid		(14,191)	(8,040)
Net cash inflows/(outflows) from operating activities	**25(b)**	**113,124**	**(51,572)**
Cash flows from investing activities			
Payment for property, plant and equipment		(2,933)	(19,253)
Security deposits for performance bonds		(31,793)	(11,212)
Repayment of loan by associated entity		-	2,576
Payment to acquire a business		-	(421)
Net cash (outflows) from investing activities		**(34,726)**	**(28,310)**
Cash flows from financing activities			
Proceeds from issue of new shares		-	14,620
Repayment of lease liabilities		(4,648)	(5,045)
Proceeds from borrowings		-	75,687
Repayment of borrowings		(24,404)	(35,807)
Transaction costs related to borrowings		-	(4,104)
Net cash (outflows)/inflows from financing activities		**(29,052)**	**45,351**
Net increase/(decrease) in cash and cash equivalents		**49,346**	**(34,531)**
Cash and cash equivalents at the beginning of the financial year		21,681	59,261
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(30)	(3,049)
Cash and cash equivalents at the end of the financial year	**25(a)**	**70,997**	**21,681**

Notes to the financial statements are included on pages 54 to 131.

Contents

1. Summary of accounting policies

a. CORPORATE INFORMATION

The consolidated financial statements of Electro Optic Systems Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2023 were authorised for issue by the Directors on 28th February 2024.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Electro Optic Systems Holdings Limited (the Company, or parent) is a limited company incorporated and domiciled in Australia and whose shares are publicly traded. The registered office in in Symonston, Canberra in Australia.

b. BASIS OF PREPARATION

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) (collectively referred to as IFRS) and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated. The presentation and functional currency of the Group is Australian dollars. Certain comparative amounts have been restated to apply with the method of computation in the current year.

The Company is a company of the kind referred to in A*SIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

c. GOING CONCERN

The financial report has been prepared on the going concern basis which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business and at amounts stated in the financial report.

For the year ended 31 December 2023, the Group incurred a Loss Before Tax from Continuing Operations of $40.2m (December 2022: loss of $62.9m) and had a net cash inflow from operating activities of $113.1m (December 2022: net outflows of $51.6m), and a net increase in cash and cash equivalents held of $49.3m from December 2022 resulting in a cash balance of $71.0m at 31 December 2023 (December 2022: $21.7m). The Group as at 31 December 2023 has net current assets of $103.9m (December 2022: $156.9m), which includes debt repayments of $20.5m due in April 2024.

In September and October 2022, the Group entered into binding agreements with a financier for borrowing facilities, of which all facilities are fully drawn at 31 December 2023. A $26.9m repayment was made on 5 September 2023 to repay in full the first working capital facility.

Under the borrowing facilities, further repayment of the total balances is required as follows:
- $20.5m due on 11 April 2024; and
- $52.1m due on 11 October 2025.

1. Summary of accounting policies (continued)

Based upon the information available at the date of signing this report, including current estimates of cash inflows and contract wins, the Group expects to have sufficient cash at bank to make the required debt repayment of $20.5m on 11 April 2024 and forecasts it will generate sufficient net cash flows to fund the required repayment of borrowings of $52.1m on 11 October 2025.

The Directors, in their consideration of the appropriateness of the going concern basis for the preparation of this annual financial report, have caused to be prepared a cash flow forecast through to 28 February 2025. This cash flow forecast supports the ability of the Group to continue as a going concern. The underlying assumptions of the forecast include acknowledgement of the intrinsic operational risks of the business, the existing cash position of the Group, the need to convert the contract asset into cash, the ongoing loan repayment requirements and the potential need to obtain further funding.

EOS continues in advanced discussions relating to Offset Credit Obligations in the Middle East, as disclosed in Note 32. EOS expects to generate offset credits via economic activity and EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee.

The Group is required to comply with borrowing covenants each quarter, which if not met, would give the lender the right to seek immediate repayment. During the year ended 31 December 2023, and in the period up to the date of this announcement, the Group worked with the lender to ensure it did not breach any of its covenants. Further, a facility amendment was executed with the Group's primary lender as outlined in Note 18 which agreed to relax certain restrictions included in the borrowing facility agreements subsequent to year end.

The Group continues to closely monitor its cash flow outlook and compliance with its borrowing covenants. The ability of the Group to maintain liquidity, fund the working capital required to grow the business, repay debts, and meet its borrowing covenants is dependent on the Group continuing to invoice customers and collect cash in a timely manner. Should it appear that borrowing covenants may not be complied with, or the Group may not be in a position to meet its debt repayments, or the Group may not have adequate liquidity for its operations, the Directors will assess available options to restructure debt commitments or access additional equity or debt funding as required.

In the opinion of the Directors, the ability of the Group to continue as a going concern and pay its debts as and when they become due and payable is dependent on:

- the receipt of significant cash collections from customers as a result of:
    a) the continued realisation of the contract asset; and
    b) key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- the continued ability of the Group to deliver against its contracts on time, to the required specifications and within budgeted costs, and to secure additional contracts, including by converting key opportunities within the Defence and Space sector pipelines;
- the Group reaching a satisfactory agreement in relation to plans to acquit the Offset Obligations arising under an overseas contract;
- to the extent required to meet the repayment obligations under borrowing arrangements, the successful completion of further debt or equity raisings;
- the forbearance of creditors in respect of amounts which may be beyond normal payment terms as required; and
- the continued adherence to borrowing covenants by the Group, and the forbearance of lenders regarding any covenant breaches should any arise.

1. Summary of accounting policies (continued)

The Directors note that whilst the Group has been successful in securing debt finance and raising capital in the past, there is no assurance that it will be successful in any potential future recapitalisation and/or refinancing of the Group should this be required.

Should the Group be unable to achieve successful outcomes in relation to the above matters (in particular, the ability to convert the contract asset into cash, the ability to secure the continued support of the financiers to the Group, the Group reaching a satisfactory agreement in relation to plans to acquit the Offset Obligations, and the ability to secure debt finance or raise capital should that be required), then material uncertainty exists that may cast significant doubt on the ability of the Group to continue as a going concern and therefore, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

d. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intra-Group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group’s equity therein. The interests of non-controlling shareholders with present ownership interests entitling them to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in non-controlling interests having a deficit balance.

1. Summary of accounting policies (continued)

e. ADOPTION OF NEW AND REVISED STANDARDS

New and amended standards that are effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year. These standards did not materially affect the Group's accounting policies or any of the amounts recognised in the financial statements.

New and revised AASB Standards in issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective. These are not expected to have a material impact on the Group's accounting policies or any of the amounts recognised in the financial statements.

Standard/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2024	31 December 2024
• AASB 2022-5 Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback	1 January 2024	31 December 2024
• AASB 2023-1 Amendments to Australian Accounting Standards – Amendments to AASB 107 and AASB 7 - Disclosure of Supplier Finance Arrangements	1 January 2024	31 December 2024
• AASB 2023-5 Amendments to Australian Accounting Standards – Lack of Exchangeability	1 January 2025	31 December 2025
• AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2025	31 December 2025

f. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group recognises revenue from the following major sources:

- engineering design, manufacture and supply of remote weapon systems and related installation, integration and support services;
- design, manufacture, delivery and operation of sensors for space domain awareness and space control; and
- design, development and provision of satellite communications products, systems and services.

Customer contracts across all segments, including both products and services, are highly customised and are configured specifically for each client's operational and commercial requirements.

(i) Transaction price

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. This transaction price is updated for changes in scope or price (or both) that are approved by all parties to the contract, either in writing or by oral agreement.

1. Summary of accounting policies (continued)

Revenue recognition is constrained for negative variable consideration in relation to delays in formal customer acceptance or potential late delivery penalties/liquidated damages. Once the constraint is removed, a cumulative catch-up adjustment is made to recognise the related revenue.

There is no significant financing component in the Group's contracts with customers as the period between provision of goods and services and the receipt of cash from customers is less than a year. Payment terms which extend beyond a year are for reasons other than the provision of a significant financing component.

(ii) Timing of revenue recognition

The timing of revenue recognition (i.e., over time or at a point in time) is determined by the nature and specifications of the contracts that the Group enters into with its customers.

A. Revenue recognition over time

Goods manufactured and services delivered under the Group's major contracts do not have an alternative use for the Group and the Group has an enforceable right to payment for performance completed to date, therefore, the Group recognises revenue for its major contracts over time.

- The transaction price is allocated to performance obligations based on standalone selling prices. The output method, based on the delivery of goods or services to customers or the achievement of contract milestones, best depicts progress under these contracts as it represents the best measurement of value to the customer of goods or services to date relative to the remaining goods or services promised under the contract.
- For other contracts the input method offers the best depiction of progress under the contract. For such contracts, the Group recognises revenue by reference to costs incurred to date relative to total expected contract costs.

B. Revenue recognition at a point time

For contracts where revenue at a point in time offers the best depiction of the Group's satisfaction of its performance obligations, the Group recognises revenue when control transfers to the customer. Control is assessed as transferred to the customer when the Group has a present right to payment for the asset, typically upon delivery of goods and services to customers.

Under bill and hold arrangements, revenue is recognised once formal acceptance is received from customers.

Interest revenue is recognised using the effective interest rate method.

1. Summary of accounting policies (continued)

g. DISCONTINUED OPERATIONS

A disposal Group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or it is classified as held for sale and:

a. represents a separate major line of business or geographical area of operations,
b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
c. is a subsidiary acquired exclusively with a view to resale.

Discontinued Operations are excluded from the results of Continuing Operations and are presented as a single amount as profit or loss after tax from Discontinued Operations in the statement of profit or loss.

An operation was discontinued in the prior year. Refer to Note 6 for further information.

All other notes to the financial statements include amounts for Continuing Operations, unless indicated otherwise**.**

h. FINANCIAL INSTRUMENTS

(i) Financial assets

A. Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (through profit or loss or other comprehensive income); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. For assets measured at fair value, gains and losses will either be recorded through profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

For investments in equity instruments not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

B. Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Measurement of trade and other receivables remains at amortised cost consistent with the prior year.

1. Summary of accounting policies (continued)

C. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The consolidate entity measures its debt instruments using the amortised cost basis. Using this method, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

D. Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, contract assets, loans to associates and lease receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) Financial Liabilities

A. Interest bearing liabilities

All loans and borrowings are initially recognised at fair value less transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

B. Trade and other payables

Liabilities are recognised for amounts to be paid for goods or services received. Trade payables are settled on terms aligned with the normal commercial terms in the Group's countries of operation.

i. CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

j. EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Provisions made in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Contributions to defined benefit contribution superannuation plans are expensed when incurred.

1. Summary of accounting policies (continued)

k. FOREIGN CURRENCY

(i) Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rates of exchange at the reporting date.

Exchange differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are recorded using the exchange rates at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in Other Comprehensive Income or profit or loss are also recognised in Other Comprehensive Income or profit or loss, respectively).

(ii) Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (having non-AUD functional currency) are translated into Australian dollars at the exchange rate prevailing at the reporting date, income and expenses items are translated at the average rate of exchange for the respective months. Exchange differences arising on such translation are recognised as currency translation reserve under equity.

Exchange differences arising from the translation of a foreign operation previously recognised in currency translation reserve in equity are not reclassified from equity to the consolidated profit or loss until the disposal of the operation.

l. GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

1. Summary of accounting policies (continued)

m. GOVERNMENT GRANTS

Government grants are recognised in profit or loss on a systematic basis over the periods in which the costs for which the grants are intended to compensate are recognised. Where a grant's primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment), the grant is recognised as deferred income in the consolidated balance sheet, which is subsequently transferred to profit or loss on a systematic basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group with no future related costs, are recognised as income in the period in which the grants becomes receivable.

n. IMPAIRMENT OF ASSETS

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. The recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Other than goodwill, where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

1. Summary of accounting policies (continued)

o. INCOME TAX

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year, using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is recognised on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax base.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

(iii) Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the Statement of profit or loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or bargain purchase gain.

1. Summary of accounting policies (continued)

(iv) Tax consolidation

The Company and all its wholly-owned Australian entities are part of a tax-consolidated Group under Australian taxation law. Electro Optic Systems Holdings Limited is the head entity in the tax-consolidated Group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the 'separate taxpayer within the Group' approach.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated Group are recognised by the company (as the head entity in the tax-consolidated Group).

There are formal tax funding and tax sharing arrangements between the companies comprising the Australian tax-Group as at 31 December 2023.

p. INTANGIBLE ASSETS

(i) Research and development costs

Expenditure on research activities is recognised as an expense in the year in which it is incurred. Where no internally generated intangible assets can be recognised, development expenditure is recognised as an expense in the year as incurred.

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset, and their fair value can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following estimated useful lives are used in the calculation of amortisation on a straight-line basis:

Core technology (not patented)	10 years
Patented technology	15 years
Software	5 years
Customer contracts and relationships	15 years
Licences	4 years

q. INVENTORIES

Inventories are measured at the lower of cost and net realisable value.

Costs are assigned on the following basis:

Raw materials:	weighted average cost basis for raw material inventory
Work-in-progress:	standard cost

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion, estimated costs necessary to make the sale, and provision for obsolescence.

1. Summary of accounting policies (continued)

r. LEASES

The Group assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Right of use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount the lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Right-of-use assets are also subject to impairment in line with *AASB 136 Impairment of Assets* (refer note 1(n)).

Where the Group has an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognised lease liabilities measured at the present value of the lease payments to be made over the lease term. In calculating the present value of the lease payment, The Group uses the discount rate implicit in the lease, or if this rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate,
- the amount expected to be paid under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

1. Summary of accounting policies (continued)

The Group remeasures the carrying amount of the lease liability if there is a modification, a change in the lease term, a change in the lease payments (eg, changes to future payments resulting from a change in an index or rate used to determine lease payments) or a change in the assessment of an option to purchase the underlying asset.

s. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of an item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated so as to write-off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period. In particular, the Group considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values. Furthermore, the Group considers climate-related matters, including physical and transition risks in determining if climate-related legislation and regulations might impact either residual values or useful lives.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	3 to 15 years
Leasehold improvements	3 to 5 years
Office equipment	5 to 15 years
Furniture, fixture and fittings	5 to 15 years
Motor vehicles	5 to 15 years
Computer equipment	3 to 4 years
Test equipment	3 to 4 years

t. PROVISIONS

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received, and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Warranties

Provisions for warranty costs are recognised as agreed in individual sales contracts, at the Directors best estimate of the expenditure required to settle the Group's liability. Sales-related warranties cannot be purchased separately, and they serve as an assurance that the products sold comply with agreed-upon specifications.

1. Summary of accounting policies (continued)

(ii) Contract losses

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(iii) Make good provisions and decommissioning costs

A make good provision, including decommissioning costs, is recognised when there is a present obligation which it is probable that an outflow of economic benefits will be required to settle and the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling and removing leasehold improvement, decommissioning plant and equipment, or otherwise restoring facilities and premises as required in accordance with the underlying agreements.

(iv) RWS Units

A provision to manufacture and resupply RWS units, is recognised when there is a present obligation under an existing contract to settle the Group's obligation under the contract and the amount of the provision can be measured reliably. The estimated future obligations include the costs of the manufacture and resupply as required in accordance with the underlying agreements.

(v) Finance costs

A provision for finance costs is recognised when there is a present obligation which it is probable that an outflow of economic benefits will be required to settle and the amount of the provision can be measured reliably. The estimated future obligation relates to the fee dispute with the lender that was resolved through a conditional facility amendment executed on 22 December 2023.

(vi) Legal costs

A provision for legal costs is recognised when there is a present obligation which it is probable that an outflow of economic benefits will be required to settle and the amount of the provision can be measured reliably.

u. SHARE BASED PAYMENTS TO EMPLOYEES

Equity-settled share-based payments are measured at fair value at the date of the grant. Fair value is measured by use of either the Monte Carlo model or the Binomial model. The models have been adjusted, based on management best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Ordinary shares issued under the Legacy LFSP are accounted for as an in-substance option and initially measured using a Monte Carlo simulation model. Directors reassess the non-market inputs and adjust throughout the life for likely eventuality.

1. Summary of accounting policies (continued)

v. GOODWILL

Goodwill is initially recognised and measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquirer, and the fair value of the acquirer's previously held equity interest (if any) over the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group or Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

w. CLIMATE-RELATED MATTERS

The Group considers climate-related matters in estimates and assumptions, where appropriate. This assessment includes a wide range of possible impacts on the Group due to both physical and transition risks. Even though the Group believes its business model and products will still be viable after the transition to a low-carbon economy, climate-related matters increase the uncertainty in estimates and assumptions underpinning several items in the financial statements. Even though climate-related risks might not currently have a significant impact on measurement, the Group is closely monitoring relevant changes and developments, such as new climate-related legislation. The items and considerations that are most directly impacted by climate-related matters are:

- Useful life of property, plant and equipment.
  i. When reviewing the residual values and expected useful lives of assets, the Group considers climate-related matters, such as climate-related legislation and regulations that may restrict the use of assets or require significant capital expenditures. See Note 1(s) for further information.
- Impairment of non-financial assets.
  i. The value-in-use may be impacted in several different ways by transition risk in particular, such as climate-related legislation and regulations and changes in demand for the Group's products. Even though the Group has concluded that no single climate-related assumption is a key assumption for the 2023 test of goodwill, the Group considered expectations for increased costs of emissions, increased demand for goods sold by the Group and cost increases due to stricter recycling requirements in the cash-flow forecasts in assessing value-in-use amounts. See Note 13 for further information.
- Decommissioning liability.
  i. The impact of climate-related legislation and regulations is considered in estimating the timing and future costs of decommissioning one of the Group's manufacturing facilities.

2. Judgements, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Estimates and underlying assumptions are reviewed on an ongoing basis and changes are reflected in the assumptions when they occur.

a. RECOVERABILITY OF GOODWILL AND IMPAIRMENT OF ASSETS

The Directors made a critical judgement in relation to the recoverable amount of goodwill in Note 12 and the allocation of goodwill to the three Cash Generating Units ("CGUs").

The Group assesses each CGU, where possible, at year end, to determine whether there are any indications of impairment or reversal of impairment. Where an indicator of impairment or reversal exists, a formal estimate of the recoverable amount is made. Goodwill and indefinite life intangible assets are assessed at least on an annual basis.

Recoverable amount is the higher of the fair value less cost of disposal and value in use calculated in accordance with the Group accounting policy. These assessments require the use of estimates and assumptions such as the pipeline of sales opportunities, discount rates applied to estimated free cash flows, and long-term growth rates applied in estimating the future value of our CGUs. The recoverable amount is sensitive to these assumptions used for the discounted cashflow model.

The key assumptions used to determine the recoverable amount for the different CGU's are disclosed and further explained in Note 13.

b. IMPAIRMENT OF CONTINUING OPERATIONS

As part of the preparation of its 31 December 2023 Annual Report, management noted that the carrying amount of the Group's net assets continued to be more than its market capitalisation as at 31 December 2023. This is a specific indicator of impairment under AASB 136 Impairment of Assets. As a result, management performed an assessment of the recoverable amount of each of its three CGUs, Defence, EM Solutions (EMS) and Space as at 31 December 2023. No impairments, or reversals of impairments, were recognised as a result of the Group's 31 December 2023 assessment.

c. CAPITALISATION AND RECOVERABLE AMOUNT OF CAPITALISED DEVELOPMENT COSTS

A critical judgement exists in the decision to capitalise work in progress (see Note 15). The Group capitalises costs for product development projects. Initial capitalisation of costs is based on judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone. In determining the amounts to be capitalised, the Directors make assumptions regarding the expected future cash generation of the project. At 31 December 2023, the carrying amount of capitalised development costs was $14.5m. The asset is driven by capital works undertaken by Defence Systems and Space Systems. During the year, $7.4m of capitalised work in progress was reclassified as an intangible asset as the Group confirmed its intention to utilise these assets as a prototype to facilitate the ongoing development and testing of its CUAS technologies.

A critical judgement also exists in relation to the recoverability of capital work in progress.

2. Judgements, estimates and assumptions (continued)

The Group continues to invest through EOS Defence Systems Australia (EOSDS) in the ongoing engineering development of counter drone defence, predominantly in the areas of directed energy (DE) and counter uninhabited aerial strike (CUAS) technologies. The Directors have assessed the recoverable amount of the EOSDS capital works in progress asset on 31 December 2023 and concluded that no impairments should be recognised. This judgement is based on the engagements, negotiations and demonstrations completed during the year and the feedback received from industry partners and potential customers. Contract negotiations for its DE product are underway with at least one potential customer.

d. CONTRACT ASSET

A critical judgement exists in relation to the recoverability of the contract assets described in Note 8. Of the total contract assets of $68.0m, an amount of $52.3m relates to a contract with a customer in a foreign jurisdiction. Significant collection of the contract asset was realised during the year with a reduction in the balance of $96.4m during FY23. The Directors have reviewed the collectability of the total Contract Asset as at 31 December 2023 of $68.0m, including both current and non-current amounts. The Directors have concluded that no provisions should be recognised on the basis of cash received to date and the creditworthiness of the counterparty, amongst other factors. Furthermore, the Directors are of the view that the estimates used in preparing this financial report are reasonable.

Timing differences between revenue recognition and invoicing are expected to arise due to differences between the Group's Revenue recognition policies (see Note 1(f)) and the terms of the underlying contracts. The Directors have concluded that any estimated credit losses against the Contract Asset are immaterial. This judgement is based on the nature of the counterparties involved (primarily sovereign entities), the payments received during the year, and continuing communications with clients regarding administration of the underlying contracts.

e. REVENUE

The Group estimates variable considerations to be included in the transaction price and also judgements in terms of the nature and timing of revenue recognised under contracts. A summary of the accounting policies adopted by the Group in regard to revenue recognition is set out in Note 1(f).

Under a major production contract with a foreign customer, late deliveries against the contracted schedule, due in part to customer requested changes and other factors, resulted in the application of late delivery penalties in 2023. These penalties, and potential penalties where revenue has been recognised but the cash not yet received, have been recognised as constrained revenue. Negotiations are well advanced to amend future contract delivery dates to ensure no further late delivery penalties will be incurred. The Board is confident this will be achieved given the status of these contract amendments, the Group's positive operating performance under the contract, good relationships with the client and track record of payments received to date.

f. CONSOLIDATION OF EOS DEFENCE SYSTEMS USA

Effective from 17 October 2022, EOS Defence Systems USA (EOSDS USA), a United States based subsidiary, is managed through a Special Security Agreement (SSA) as required by the US National Industrial Security Program ("NISPOM"). The SSA enables EOSDS USA to enter into contracts with the US Department of Defence that contain certain classified information.

The SSA is an instrument designed to mitigate the risk of foreign ownership, control or influence over a US entity that has security clearance under the NISPOM. The SSA denies the foreign owner

2. Judgements, estimates and assumptions (continued)

unauthorized access to classified and export-controlled information while preserving the foreign owner's voice in the business management of the company. Under the SSA, the Group has the right to appoint a representative (Inside Director) along with three Outside Directors. The Outside Directors must be US citizens approved by the US Defense Counterintelligence and Security Agency (DCSA).

The Group maintains its involvement with EOSDS USA's activities through normal business activity and liaison with the Chair of the SSA and through the Inside Director. The operational and governance activities and results are reviewed by the Group's management. These activities are all performed within the confines of the SSA such that EOSDS USA operates its business within the requirements necessary to protect the US national security interest.

An assessment has been performed in accordance with *AASB 10 Consolidated Financial Statements* of whether, for accounting purposes, the Group controls EOSDS USA. The Group is exposed to variable returns from its investment in EOSDS USA and there is assessed to be sufficient power within the confines of the Proxy agreement for the Group to use its influence to affect those returns. As such, under *AASB 10*, it is deemed that the Group controls EOSDS USA and therefore the results of EOSDS USA are consolidated into the Group's consolidated accounts.

g. TAX

Deferred tax assets are recognised for unused tax losses to the extent it is probable that the taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of the deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Directors made a critical judgement in relation to recognising some of the deferred tax balances described in Note 5(b). The Directors currently consider it probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised in the Australian tax Group.

The Directors also made a critical judgement in relation to not recognising deferred tax balances on tax losses. No deferred tax assets have been recognised in the foreign subsidiaries.

h. WARRANTY PROVISION

The Directors made a critical judgement in relation to the valuation of the provision for warranty costs described in Note 20(g). The valuation is determined based on the Directors' best estimate of the expenditure required to settle the Group's liability under its warranty obligations.

Estimates and outcomes that have been applied in the assessing warranty provisions may change in the future and the Group will recognise any revisions deemed necessary as a result.

i. LEGAL COST PROVISION

The Directors made a critical judgement in relation to the provision for legal costs described in Note 20(f). The judgement is based on the Directors' best estimate of the expenditure required to settle the Group's liability to resolve the legal matter. Estimates and outcomes that have been applied in the assessing this provision may change in the future and the Group will recognise any revisions deemed necessary as a result.

2. Judgements, estimates and assumptions (continued)

j. RWS UNITS PROVISION

The Directors made a critical judgement in relation to the provision for the cost to resupply RWS units for an existing customer as described in Note 20(d). The judgement is based on the Directors' best estimate of the cost required to settle the Group's obligation under this contract. Estimates and outcomes that have been applied in the assessing this provision may change in the future and the Group will recognise any revisions deemed necessary as a result.

k. SHARE BASED PAYMENTS

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. Details of the assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 23.

3. (Loss)/profit before tax - Continuing operations

a. REVENUE

Revenue from operations	2023 $ '000	2022 $ '000
Revenue from operations consisted of the following items:		
Revenue from the sale of goods	201,402	111,292
Revenue from the rendering of services	17,851	26,620
Total revenue	**219,253**	**137,912**

(i) Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services both (i) over time and (ii) at a point in time, as shown below.

Revenue recognition over time	2023 $ '000	2022 $ '000
Defence segment		
Sale of goods	81,765	83,512
Providing of services	6,620	8,887
Space segment		
Sale of goods	40,754	22,132
Providing of services	2,804	3,301
Total revenue recognised over time	**131,943**	**117,832**

All other revenue is recognised at a point in time:

Revenue recognition at a point in time	2023 $ '000	2022 $ '000
Defence segment		
Sale of goods	65,092	2,100
Providing of services	1,885	11,452
Space segment		
Sale of goods	13,792	3,548
Providing of services	6,541	2,980
Total revenue recognised at a point in time	**87,310**	**20,080**
Total revenue recognised	**219,253**	**137,912**

3. (Loss)/profit before tax - Continuing operations (continued)

(ii) Other income

	2023 $ '000	2022 $ '000
Interest:		
Bank deposits	850	41
Other	160	189
Grant income	87	480
Bargain purchase	-	870
Gain on lease modification	1,129	-
Other	290	280
Total other income	**2,516**	**1,860**

b. EXPENSES

The loss for the year from continuing operations includes the following expenses:

	2023 $ '000	2022 $ '000
Employee benefits expense:		
Share based payments (equity settled) expense/(reversal)	589	(1,122)
Contributions to defined contribution superannuation plans	4,507	5,200
Other employee benefits	52,177	58,927
Total employee benefits expense	**57,273**	**63,005**
Finance costs		
Interest expense on lease liabilities	1,396	1,317
Interest on secured borrowings	15,857	5,905
Other finance costs	18,329	7,030
Finance costs	**35,582**	**14,252**
Amortisation of intangibles	1,597	1,597
Depreciation of property, plant and equipment	6,356	4,324
Depreciation on right of use assets	4,430	5,138
Impairment loss	-	7,315
Foreign exchange (gain)/loss	(892)	(12,666)

4. Earnings per Share

	2023 cents per share	2022 cents per share
Basic		
Continuing operations	(20.9 cents)	(35.8 cents)
Discontinued operations	-	(42.2 cents)
Total	**(20.9 cents)**	**(78.0 cents)**
Diluted		
Continuing operations	(20.9 cents)	(35.8 cents)
Discontinued operations	-	(42.2 cents)
Total	**(20.9 cents)**	**(78.0 cents)**

Calculation of basic and diluted total Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

Earnings	**Note**	**2023 $'000**	**2022 $'000**
Earnings – net loss attributable to equity holders of parent	(a)	(33,275)	(114,540)
Adjustments to exclude loss for the year from Discontinued Operations	6	-	61,954
Earnings from continuing operations for the purpose of basic and diluted earnings per share excluding discontinued operations		(33,275)	(52,586)

Number of shares	**Note**	**2023 No. of shares**	**2022 No. of shares**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	(b), (c), (d), (e)	159,226,631	146,853,905

(a) (Loss)/ profit attributable to the owners of the parent entity used in the calculation of basic earnings per share is the same as net (loss)/profit in the statement of profit or loss and other comprehensive income.

(b) The 270,000 unlisted Legacy Employee Share Plan options outstanding are not considered dilutive as all the conditions of exercise have not been met at the reporting date and given the Group made a loss in the year.

(c) Shares issued under the Legacy LFSP are not included in the weighted average number of ordinary shares as they are treated as in-substance options for accounting purposes. The options are not considered dilutive given the Group made a loss in the year.

(d) Share options issued under the OEIP are not considered dilutive as the conditions of vesting or exercise have not been met at the reporting date and given the Group made a loss in the year.

(e) Share rights issued under the OEIP are not considered dilutive as the conditions of vesting or exercise have not been met at the reporting date and given the Group made a loss in the year.

5. Income Tax

Income tax	2023 $ '000	2022 $ '000
Current year tax (benefit)	(6,086)	(9,278)

a. THE PRIMA FACIE INCOME TAX EXPENSE ON PRE-TAX ACCOUNTING (LOSS)/PROFIT FROM OPERATIONS RECONCILES TO THE INCOME TAX EXPENSE IN THE FINANCIAL STATEMENTS AS FOLLOWS:

	2023 $ '000	2022 $ '000
(Loss) before income tax from continuing operations	(40,193)	(62,885)
(Loss) before income tax from discontinued operations	-	(61,954)
(Loss) before income tax	**(40,193)**	**(124,839)**
Income tax (benefit) calculated at 30%	(12,058)	(37,452)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,662	(2,070)
Non-deductible capital expenditure	1,088	254
Other assessable income	1,051	-
Bargain purchase on acquisition	-	(261)
Impairment of goodwill	-	751
Impact of discontinued operations	-	9,239
Share based payments	177	(336)
Amortisation of intangible assets in other jurisdictions	-	120
Other non-deductible/non-assessable items	188	1,698
	(7,892)	(28,057)
Recognition of tax losses carry back receivable	-	(11,200)
Temporary differences not recognised	-	(155)
Adjustment in respect of prior years	(1,470)	(49)
Unused Australian tax losses and tax offsets now brought to account	-	-
Unused tax losses and tax offsets not recognised as deferred tax assets	3,276	30,183
Income tax (benefit) attributable to operating (loss)	**(6,086)**	**(9,278)**
Income tax attributable to a discontinued operation	**-**	**-**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law, 25% in Germany, 17% in Singapore, 9% in United Arab Emirates and 28% in New Zealand. Tax rates in the USA apply at a Federal, State and local level and can vary depending upon location. The tax rates applicable to the Group's USA operations haves been assumed to approximate a combined rate of 21%. There has been no change in the corporate tax rate when compared with the previous reporting year.

5. Income Tax (continued)

b. DEFERRED TAX BALANCES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against currents tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax assets and liabilities on a net basis.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year.

	2022 $ '000	Charge/ (credit) to profit and loss $ '000	Recognised in other comprehensive income $ '000	2023 $ '000
Deferred tax assets				
Accruals	175	(22)	-	153
Business capital expenditure deductible over five years	955	(565)	-	390
Provision for annual leave	2,146	(156)	-	1,990
Provision for long service leave	1,294	81	-	1,375
Provision for estimated credit losses	(40)	40	-	-
Provision for decommissioning costs	75	-	-	75
Provision for obsolete stock	138	929	-	1,067
Provision for make good costs	411	178	-	589
Provision for other employee costs	-	1,050	-	1,050
Provision for warranty	2,204	406	-	2,610
Other provisions	-	3,678	-	3,678
Contract asset	825	(48)	-	777
Income tax losses	-	-	-	-
Foreign exchange gain arising from tax fair value adjustment	(2,760)	1,204	-	(1,556)
Other	-	16		16
	5,423	**6,791**	**-**	**12,214**
Deferred tax liabilities				
Prepaid insurance	38	(38)	-	-
Right of use assets	(958)	2,176	-	1,218
Property plant and equipment	1,895	(3,755)	-	(1,860)
Other	(46)	46	-	-
Acquired intangible assets	(3,026)	404	-	(2,622)
	(2,097)	**(1,167)**	**-**	**(3,264)**
Total	**3,326**	**5,624**	**-**	**8,950**

5. Income Tax (continued)

	2021 $ '000	Charge/ (credit) to profit and loss $ '000	Recognised in other comprehensive income $ '000	2022 $ '000
Deferred tax assets				
Accruals	243	(68)	-	175
Business capital expenditure deductible over five years	1,703	(748)	-	955
Provision for annual leave	2,374	(228)	-	2,146
Provision for long service leave	1,446	(152)	-	1,294
Provision for estimated credit losses	-	(40)	-	(40)
Provision for decommissioning costs	75	-	-	75
Provision for obsolete stock	162	(24)	-	138
Provision for make good costs	331	80	-	411
Provision for warranty	1,927	277	-	2,204
Contract asset	366	459	-	825
Income tax losses	-	-	-	-
Foreign exchange gain arising from tax fair value adjustment	355	(3,115)	-	(2,760)
	8,982	**(3,559)**	**-**	**5,423**
Deferred tax liabilities				
Prepaid insurance	(25)	63	-	38
Right of use assets	270	(1,228)	-	(958)
Property plant and equipment	(1,079)	2,974	-	1,895
Other	(183)	137	-	(46)
Acquired intangible assets	(3,459)	433	-	(3,026)
	(4,476)	**2,379**	**-**	**(2,097)**
Total	**4,506**	**(1,180)**	**-**	**3,326**

At the reporting date the Group has unused tax losses emanating from its non-Australian entities. No deferred tax asset has been recognised in respect of these balances as it is not considered probable that there will be future taxable profits available in these jurisdictions.

c. UNRECOGNISED DEFERRED TAX BALANCES

	2023 $ '000	2022 $ '000
The following cumulative deferred tax assets have not been brought to account as assets		
Tax losses – revenue	63,361	37,889
Temporary differences	-	926
Total	**63,361**	**38,815**

5. Income Tax (continued)

d. FRANKING ACCOUNT BALANCE

	2023 $ '000	2022 $ '000
Adjusted franking account balance	4,042	17,443

e. TAX CONSOLIDATION

(i) Relevance of tax consolidation to the Group

The Company and some of its wholly-owned Australian resident taxable entities have formed a tax-consolidated Group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated Group is Electro Optic Systems Holdings Limited. The members of the tax-consolidated entity Group are identified in Note 27.

(ii) Nature of tax funding arrangements and tax sharing agreements

As at 31 December 2023, there were formal tax funding and tax sharing arrangements within the Australian tax-consolidated Group.

6. Discontinued operations – prior year

On 15 November 2022, the Group assigned its US subsidiary SpaceLink Corporation (SpaceLink) to an assignee under an Assignment for the Benefit of Creditors (ABC) process in the United States. Under this process, the Assignee became responsible entity therefore the Group effectively lost control over SpaceLink as a result of this Assignment and there was an effective disposal.

The activities relating to SpaceLink have been classified as a discontinued operation in the prior year. The prior year consolidated statement of profit and loss and other comprehensive income has been presented to show the discontinued operation separately from Continuing Operations.

The results of SpaceLink Corporation are presented below:

	Notes	2022 $ '000
Other income		39
Raw materials and consumables used		-
Employee benefit expenses		(12,525)
Occupancy costs		(240)
Administration expenses		(17,068)
Other expenses		(568)
Amortisation of Intangible assets		(401)
Depreciation of property plant and equipment		(159)
Depreciation of right of use assets		(438)
Finance cost		(197)
Impairment loss		(47,181)
Onerous contract provision		(2,932)
Loss before tax from discontinued operations		**(81,670)**
Tax expense		-
Loss for the year from discontinued operations		**(81,670)**
Gain on assignment and effective disposal of SpaceLink		19,716
Tax expense on gain on assignment and effective disposal of SpaceLink		-
Gain after tax		19,716
Net loss for the year attributable to discontinued operations (attributable to owners of the Company)		**(61,954)**

The net cash flows incurred by SpaceLink were:

Cash flow – discontinued operations	**2022 $ '000**
Operating cash flows	(15,321)
Investing cash flows	(11,373)
Total	**(26,694)**
Financing cash flows (provided by the continuing operations)	26,478

7. Trade and other receivables

	2023 $ '000	2022 $ '000
Trade receivables from third-party customers	7,431	6,373
GST receivable	605	933
Employee receivables	219	113
Other debtors	211	-
Total	**8,466**	**7,419**

Trade receivables are non-interest bearing and are generally on terms of 30 days.

The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss (ECL). The ECL on trade receivables are estimated by reference to past known default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors. Based on this analysis, any ECLs on trade receivable balances at the end of the year are immaterial.

There has been no change in the estimation techniques or significant assumptions made during the current reporting year. There were no receivables written off during the year and no receivables balances, as at the end of the year, are subject to enforcement activities.

8. Contract asset

	2023 $ '000	2022 $ '000
Unbilled revenue – current	29,090	127,899
Unbilled revenue - non-current	38,946	36,520
Total	**68,036**	**164,419**

The contract asset reflects amounts recognised in revenue on a milestone or a delivery basis in the Defence and Space segments, but not yet billed to the customer. Timing differences between the satisfaction of performance obligations and invoicing and subsequent receipt of cash are expected to arise due to differences between the Group's revenue recognition policies (see Note 1(f)) and the terms of the underlying contracts. This occurs where contracts typically invoice on a milestone basis that may not necessarily reflect progress under the contract.

The Group assesses for any constrained revenue and the recoverability of the contract asset. The Directors have reduced the contract balance for its estimate of constrained revenue and believes the contract asset balance remains recoverable. This judgement is based on the nature of the counterparties involved, contract amendment discussions that are underway with customers, payments received during the year and continuing communications with the clients regarding administration of the underlying contracts.

The movement in the contract asset during the financial year is set out below.

	2023 $ '000	2022 $ '000
Opening balance	164,419	128,297
Invoicing during the financial year	(185,687)	(59,611)
Net revenue recognised during the year	88,089	88,816
Impact of foreign exchange and other movements	1,215	6,917
Closing balance	**68,036**	**164,419**

9. Inventories

	2023 $ '000	2022 $ '000
Raw materials – at cost	29,351	26,420
Work in progress – at cost	44,046	48,421
Total	**73,397**	**74,841**

10. Prepayments

	2023 $ '000	2022 $ '000
Prepayments[1] - current	16,384	17,591

[1]Prepayments include prepayments made to suppliers for the delivery of component parts in relation to current orders.

11. Right of use assets

	2023 $ '000	2022 $ '000
(a) Office premises – at cost	34,979	29,117
Less accumulated depreciation and impairment	(15,484)	(11,414)
	19,495	**17,703**
(b) Office equipment – at cost	1,266	1,402
Less accumulated depreciation and impairment	(978)	(853)
	288	**549**
	19,783	**18,252**

Cost	2023 $ '000	2022 $ '000
Office premises		
Balance at the beginning of the year	29,117	37,151
Adjustment due to lease modification	4,857	1,931
Additions	319	1,658
Disposals	-	(185)
Impairments	-	(12,492)
Net foreign exchange differences	686	1,054
Balance at the end of the year	**34,979**	**29,117**
Office equipment		
Balance at the beginning of the year	1,402	1,612
Additions	-	-
Disposals/Write-offs	(136)	(136)
Net foreign currency exchange differences	-	(74)
Balance at the end of the year	**1,266**	**1,402**

11. Right of use assets (continued)

Accumulated Depreciation/Amortisation/ Impairment	2023 $ '000	2022 $ '000
Office premises		
Balance at the beginning of the year	11,414	9,384
Adjustment due to lease modification	-	(105)
Depreciation*	4,169	5,291
Disposals	-	(185)
Impairments	-	(3,625)
Net foreign exchange differences	(99)	654
Balance at the end of the year	**15,484**	**11,414**
Office equipment		
Balance at the beginning of the year	853	777
Depreciation*	261	285
Disposals	(136)	(136)
Net foreign exchange differences	-	(73)
Balance at the end of the year	**978**	**853**

* 2023 refers to Continuing Operations only. 2022 is inclusive of Continuing and Discontinued Operations.

12. Goodwill

	2023 $ '000	2022 $ '000
Opening balance	**12,373**	**14,878**
Less impairment	-	2,505
Closing balance	**12,373**	**12,373**

Management has identified the following as the Group's cash generating units ("CGUs"):

CGU	Operations
EM Solutions	EMS specialises in innovative optical, microwave and on-the-move radio and satellite products that help deliver high speed, resilient and assured telecommunications anywhere in the world.
Space Technologies	The Group's laser-based surveillance systems with space tracking capability; manufactures and sells telescopes and dome enclosures for space projects.
Defence Systems	Develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers

The carrying amount of goodwill has been allocated to CGUs as follows:

	2023 $ '000	2022 $ '000
Defence	-	-
Space	2,505	2,505
EM Solutions	9,868	9,868
	12,373	**12,373**

13. Impairment of assets

a. IMPAIRMENT INDICATORS AND TESTING

At each year end, the Group assesses whether indicators of impairment or impairment reversal exist at an individual asset level, where possible, and a CGU level.

(i) Market capitalisation deficiency

The carrying amount of the Group's net assets continues to be more than its market capitalisation as at 31 December 2023. This is a specific indicator of impairment under AASB 136 Impairment of Assets. As a result, an assessment of the recoverable amount of each of the three CGUs was performed, Defence, EM Solutions and Space as of 31 December 2023. This assessment showed the recoverable amount for all CGUs being higher than their carrying values and as such the Group did not identify any further impairments required as at 31 December 2023.

(ii) Defence

During 2022, an impairment expense was recognised for the Defence CGU of $1.3m for a right of use asset for a Defence site lease and $2.5m of impairment of goodwill allocated to the Defence CGU. The Group has assessed this and determined that no indicators of impairment reversal exist at 31 December 2023.

(iii) Corporate

During 2022, an impairment expense of $3.5m was recognised in relation to the right of use asset for the corporate head office lease. The Group has assessed this and determined that no indicators of impairment reversal exist at 31 December 2023.

(iv) Key assumptions and sensitivities used for impairment assessment performed during the year ended 31 December 2023

The recoverable amount of the CGUs of the Group have been assessed by reference to the higher of value in use and fair value less cost of disposal arrived by discounting a cash flow forecast with the weighted average cost of capital of each CGU.

Assumption	Basis of Assumption
Future sales levels	Derived from the Group's multi-year revenue outlook.
Discount rate	Takes into account the risk-free rate, equity market risk and the specific risk premium for each CGU.
Long-term growth rate	Represents the rate relevant to market conditions and business plans. The long-term growth rate included in the terminal value in calculating the value in use for each CGU was 2.5%.

The Board monitors climate-related risks when measuring the recoverable amount. While the Group believes its operations are not significantly exposed to physical risk, the value-in-use may be impacted by climate related legislation and regulations and their impact on demand for the Group's products. The Group has concluded that no single climate-related assumption is a key assumption for the 2023 test of goodwill.

13. Impairment of assets (continued)

Management reviewed the discount rates used based on the prevailing market conditions as of 31 December 2023, the risk profile related to assumed future cash flows and other relevant considerations. The discount rates used in calculating the value in use for each CGU are given below:

Defence	14.02%
Space	20.09%
EM Solutions	15.30%

(v) Sensitivity analysis

The Group conducted a sensitivity analysis to test changes in the key assumptions used to determine the recoverable amount for each of the CGUs. Sensitivity testing for CGUs included reducing future sales levels by 10%, reducing the long-term growth rate to 0.5% and increasing the discount rate by an additional 3%.

It was noted these sensitivities would not cause the recoverable amount of the EMS CGU to fall below its carrying value.

It was observed that a reasonable change in future sales levels and discount rates could cause impairment in the Space and Defence CGUs.

14. Intangible assets

	Product development $'000	Core technology (not patented) $ '000	Patented technology $ '000	Software $ '000	Customer contracts and relationships $ '000	Licences $ '000	Total $ '000
Cost							
At 1 January 2022	-	10,772	3,556	486	2,776	5,076	22,666
Exchange differences	-	-	-	-	-	427	427
Disposal	-	-	-	-	-	(5,503)	(5,503)
At 31 December 2022	**-**	**10,772**	**3,556**	**486**	**2,776**	**-**	**17,590**
Transfer from PP&E	7,434	-	-	-	-	-	7,434
Exchange differences	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-
At 31 December 2023	**7,434**	**10,772**	**3,556**	**486**	**2,776**	**-**	**25,024**
Amortisation							
At 1 January 2022	-	2,394	527	216	411	2,009	5,557
Exchange differences	-	-	-	-	-	308	308
Charge for the year	-	1,077	237	97	185	401	1,997
Impairment and write off	-	-	-	-	-	2,785	2,785
Disposal	-	-	-	-	-	(5,503)	(5,503)
At 31 December 2022	**-**	**3,471**	**764**	**313**	**596**	**-**	**5,144**
Exchange differences	-	-	-	-	-	-	-
Charge for the year	-	1,078	237	97	185	-	1,597
Impairment and write-off	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-
At 31 December 2023	**-**	**4,549**	**1,001**	**410**	**781**	**-**	**6,741**
Carrying amount							
At 31 December 2023	**7,434**	**6,223**	**2,555**	**76**	**1,995**	**-**	**18,283**
At 31 December 2022	**-**	**7,301**	**2,792**	**173**	**2,180**	**-**	**12,446**

During the year, $7.4m of capitalised work in progress was reclassified as an intangible asset as the Group confirmed its intention to utilise these assets as a prototype to facilitate the ongoing development and testing of its CUAS technologies.

15. Property, plant and equipment

	2023 $ '000	2022 $ '000
(a) Plant and equipment – at cost	20,726	19,003
Less accumulated depreciation and impairment	(11,755)	(8,141)
	8,971	**10,862**
(b) Office equipment – at cost	5,692	5,326
Less accumulated depreciation and impairment	(4,387)	(3,721)
	1,305	**1,605**
(c) Furniture, fixtures and fittings – at cost	1,456	1,391
Less accumulated depreciation and impairment	(628)	(531)
	828	**860**
(d) Leasehold improvements – at cost	2,859	2,459
Less accumulated depreciation and impairment	(2,349)	(2,100)
	510	**359**
(e) Motor vehicle –at cost	702	678
Less accumulated depreciation and impairment	(495)	(394)
	207	**284**
(f) Computer software – at cost	1,659	1,628
Less accumulated depreciation	(1,552)	(1,364)
	107	**264**
(g) Test equipment – at cost	5,690	4,815
Less accumulated depreciation	(2,565)	(2,440)
	3,125	**2,375**
(h) Satellite – at cost	7,000	7,000
Less impairment	(7,000)	(7,000)
	-	**-**
(i) Capital works in progress	14,455	20,608
Less impairment	-	-
	14,455	**20,608**
Total net book value of property, plant and equipment	**29,508**	**37,217**

15. Property, plant and equipment (continued)

Cost	2023 $ '000	2022 $ '000
Plant and equipment		
Balance at beginning of year	19,003	17,373
Additions	2,355	3,190
Transfers	62	1,204
Other movement	(514)	(31)
Disposals and write offs	(156)	(3,025)
Net foreign currency exchange differences	(24)	292
Balance at end of year	**20,726**	**19,003**
Office equipment		
Balance at beginning of year	5,326	4,730
Additions	473	971
Transfers	-	97
Disposals and write offs	(124)	(616)
Net foreign currency exchange differences	17	144
Balance at end of year	**5,692**	**5,326**
Furniture, fixtures and fittings		
Balance at beginning of year	1,391	1,318
Additions	84	79
Disposals and write offs	(18)	(26)
Net foreign currency exchange differences	(1)	20
Balance at end of year	**1,456**	**1,391**
Leasehold improvements		
Balance at beginning of year	2,459	2,440
Additions	408	279
Disposals and write offs	-	(336)
Net foreign currency exchange differences	(8)	76
Balance at end of year	**2,859**	**2,459**
Motor vehicles		
Balance at beginning of year	678	610
Additions	-	47
Other movements	33	-
Net foreign currency exchange differences	(9)	21
Balance at end of year	**702**	**678**

15. Property, plant and equipment (continued)

Cost (continued)	2023 $ '000	2022 $ '000
Computer software		
Balance at beginning of the year	1,628	1,589
Additions	88	366
Disposals and write offs	(7)	(213)
Transfer	-	(4)
Other movements	(49)	(76)
Net foreign currency exchange differences	(1)	(34)
Balance at end of year	**1,659**	**1,628**
Test equipment - at cost		
Balance at beginning of the year	4,815	2,736
Additions	1,278	2,079
Disposals and write-offs	(403)	-
Balance at end of year	**5,690**	**4,815**
Satellite		
Balance at beginning of year	7,000	7,000
Balance at end of year	**7,000**	**7,000**
Capital works in progress		
Balance at beginning of the year	20,608	44,297
Additions	1,343	14,642
Transfer*	(7,496)	(1,297)
Other movements	-	(226)
Disposals and write offs	-	(37,691)
Net foreign currency exchange differences	-	883
Balance at end of year	**14,455**	**20,608**

* During the year, $7.4m of capitalised work in progress was reclassified as an intangible asset. Refer to Note 14 for further details.

15. Property, plant and equipment (continued)

Accumulated depreciation/impairment	2023 $ '000	2022 $ '000
Plant and equipment		
Balance at beginning of year	(8,141)	(8,996)
Depreciation *	(4,305)	(1,877)
Disposals and write offs	156	3,025
Other movements	527	-
Net foreign currency exchange differences	8	(293)
Balance at end of year	**(11,755)**	**(8,141)**
Office equipment		
Balance at beginning of year	(3,721)	(2,812)
Depreciation *	(777)	(1,008)
Disposals and write offs	107	164
Other movements	-	(31)
Net foreign currency exchange differences	4	(34)
Balance at end of year	**(4,387)**	**(3,721)**
Furniture, fixtures and fittings		
Balance at beginning of year	(531)	(433)
Depreciation *	(115)	(117)
Disposals and write offs	17	25
Net foreign currency exchange differences	1	(6)
Balance at end of year	**(628)**	**(531)**
Leasehold improvements		
Balance at beginning of year	(2,100)	(1,681)
Depreciation *	(259)	(461)
Disposals and write offs	-	81
Net foreign currency exchange differences	10	(39)
Balance at end of year	**(2,349)**	**(2,100)**
Motor vehicle		
Balance at beginning of year	(394)	(284)
Depreciation *	(128)	(96)
Disposals and write offs	-	-
Net foreign currency exchange differences	27	(14)
Balance at end of year	**(495)**	**(394)**

15. Property, plant and equipment (continued)

Accumulated depreciation/impairment (continued)	2023 $ '000	2022 $ '000
Computer software		
Balance at beginning of the year	(1,364)	(963)
Depreciation *	(245)	(540)
Disposals and write offs	7	110
Other movements	49	-
Net foreign currency exchange differences	1	29
Balance at end of year	**(1,552)**	**(1,364)**
Test equipment		
Balance at beginning of the year	(2,440)	(2,056)
Depreciation *	(527)	(384)
Disposals	402	-
Net foreign currency exchange differences	-	-
Balance at end of year	**(2,565)**	**(2,440)**
Satellite		
Balance at beginning of year	(7,000)	(7,000)
Balance at end of year	**(7,000)**	**(7,000)**
Capital work in progress		
Balance at beginning of the year	-	(1,790)
Impairment	-	(31,931)
Disposals	-	33,721
Balance at end of year	**-**	**-**

* 2023 refers to Continuing Operations only. 2022 is inclusive of Continuing and Discontinued Operations.

Aggregate depreciation, impairment and amortisation allocated during the year is recognised as an expense and disclosed in Note 3 to the financial statements.

During the year, the Group reassessed the carrying values and useful lives of its assets. The Group determined a change in accounting estimate in the useful life of an individual asset, which resulted in an additional $1.7m depreciation being recognised during the year.

16. Current trade and other payables

	2023 $ '000	2022 $ '000
Trade payables	30,093	25,105
Accruals	10,711	18,074
Total	**40,804**	**43,179**

The average creditor days on purchases of goods is 30 days and no interest is payable on goods purchased within agreed credit terms. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. Contract liabilities

	2023 $ '000	2022 $ '000
Contract liabilities	20,587	22,168

Contract liability represents amounts received from customers in advance of the satisfaction of relevant performance obligations under the applicable contracts. The Group expects to deliver the goods and services in question within the next 12 months, in accordance with the terms of the underlying contracts. An amount of $15.0m included in the contract liabilities at 31 December 2022 has been recognised in revenue in 2023 (2022: $6.9m of 2021 balance recognised in 2022).

18. Borrowings

		2023 $ '000	2022 $ '000
Secured borrowings	**Note**		
Washington H. Soul Pattinson and Company Ltd ("WHSP")	(a)	64,822	70,834
Total secured borrowings		**64,822**	**70,834**
Unsecured borrowings		-	**1,904**
Total borrowings, net	(b)	64,822	**72,738**
Current portion		19,875	23,295
Non - current portion		44,947	49,443
Total borrowings, net	(b)	**64,822**	**72,738**

a. SECURED BORROWINGS - WHSP

As at 31 December 2023, the Group had two secured borrowings with WHSP ('WHSP facilities'):

(i) Additional Working Capital Principal Facility of $15.0m. The agreement was entered on 12 October 2022 with maturity date of 11 April 2024. The facility carries interest of 15% per annum and line fees of 4%. As at 31 December 2023, $4.9m of interest and fees have been capitalised (net of amortisation) into the loan balance. This loan is secured by a general security deed which ranks in priority above both the Term Loan Facility and the Export Finance Australia facility.

(ii) Term Loan Principal Facility of $35.0m. The agreement was entered into on 12 October 2022 with maturity date of 11 October 2025. The facility carries interest of 22% per annum and line fees of 4%. As at 31 December 2023, $9.9m of interest and fees have been capitalised (net of amortisation) into the loan balance. This loan is secured by a general security deed which ranks pari passu with the Export Finance Australia facility.

A further Working Capital Principal Facility of $20.0m was repaid in full during 2023 by its maturity date of 6 September 2023.

All of the loans above have upfront fees comprising of work fees of 7.5% and establishment fees of 5%. The relevant amounts were capitalised into the facility limit at the commencement of the facility.

The WHSP facilities specify a "Minimum Earn" amount under which, in the event of early repayment, the Group is required to pay the full interest and line fee that would otherwise be payable to maturity for the term of the facility. At 31 December 2023, the total repayment including the Minimum Earn on the remaining two facilities is $96.9m.

18. Borrowings (continued)

As at 31 December 2023 the current portion of the WHSP Facility loans outstanding was $19.9m (2022: $21.4m) and non -current portion was $44.9m (2022: $49.4m).

The WHSP facilities included the following financial covenants up to and including 31 December 2023:
(i) The Cash inflows ratio was required to be more than 0.9:1. This ratio was defined as the Group's actual cash inflows (over a 3-month period), relative to the Group's cash inflow forecast (over that 3-month period). This ratio was required to be tested each month until 31 December 2023.
(ii) The Cash outflows ratio was required to be less than 1.1:1. This ratio was defined as the Group's actual cash outflows (over a 3-month period), relative to the Group's cash outflow forecast (over that 3-month period). This ratio is required to be tested each month until 31 December 2023.
(iii) The asset coverage ratio is required to be more than 1.6:1 and was required to be tested each month until 31 December 2023 then is required to be tested each quarter until the facilities are repaid.

In addition to item (iii) above, from 1 January 2024, the following financial covenant is applicable:
(i) Interest coverage ratio was required to be more than 2:1. This ratio is defined as Group’s net cash flow from operations (adjusted for interest payments) relative to the interest expense. This covenant applies on and from 31 December 2023 and is required to be tested quarterly until the facilities are repaid.

b. TOTAL BORROWINGS

The total reported borrowings amount shown above include the total outstanding borrowings owing to lenders, including capitalised fees and interest, less the unamortised transaction costs of establishing borrowings:

	2023 $ ‘000	2022 $ ‘000
Total borrowings owing to lenders	72,576	85,467
Unamortised cost of establishing borrowings	(7,754)	(12,729)
Total borrowings, net	**64,822**	**72,738**

The weighted average interest rates paid during the year were as follows:

	2023 %	2022 %
Weighted average interest rate	19	20

The total principal drawn at 31 December 2023 under these facilities is $50m (2022: $70.0m). The arrangements require the Group to repay up to $96.9m (2022: $127.0m), including interest and other fees.

The Group resolved a commercial dispute with its primary lender, Washington H. Soul Pattinson on 22 December 2023 which included an agreement under which EOS will pay WHSP a $4.5m fee in full and final settlement of the previous disputed fee claim, and WHSP has agreed to relax certain restrictions included in the borrowing facility agreements. The adjustment to the July borrowing covenant test was subject to payment of a fee, which has been incorporated into a facility amendment executed between the parties on 22 December 2023. Subsequent to year-end, EFA approval was received and the facility amendment became effective and the $4.5m fee was paid to the lender.

19. Lease liabilities

	2023 $ '000	2022 $ '000
As at 1 January	**24,446**	**30,024**
Additions	-	1,453
Lease modification	4,219	1,878
Interest accrued / paid	1,415	1,318
Lease payments	(5,933)	(5,746)
Termination	-	(4,711)
Net foreign currency exchange differences	(228)	230
As at 31 December	**23,919**	**24,446**
Current	4,876	3,939
Non-current	19,043	20,507
Total	**23,919**	**24,446**

Maturity analysis	2023 $ '000	2022 $ '000
Year 1	6,018	5,480
Year 2	5,533	4,419
Year 3	4,838	4,794
Year 4	3,910	4,151
Year 5	2,512	3,942
Onwards	4,941	6,071
	27,752	**28,857**
Less: interest	(3,833)	(4,411)
	23,919	**24,446**

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the lease portfolio and to align with the Group's business needs. Management exercises judgement in determining whether the extension and termination options are reasonably certain to be exercised. The Group does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations in Australia are denominated in Australian dollars and leases in overseas entities are based in the currency of the country concerned.

The Group had cash outflows for leases of $4.6m. A lease agreement was amended in relation to a property lease, resulting a net gain of $1.1m which reflects the reduction in lease payments.

20. Provisions

	2023 $ '000	2022 $ '000
Current		
Employee benefits	11,440	11,089
Decommissioning costs	250	250
RWS units	7,761	-
Finance costs	4,500	-
Legal costs	1,462	-
Warranty	356	873
Total	**25,769**	**12,212**
Non-current		
Employee benefits	4,183	1,517
Provision for make good	2,147	1,570
Warranty	8,344	6,476
Total	**14,674**	**9,563**

a. EMPLOYEE BENEFITS

MOVEMENT	2023 $ '000	2022 $ '000
Balance at 1 January	11,089	12,339
Net movement in provision during year	351	(1,250)
Balance as at 31 December	**11,440**	**11,089**

The provision for employee benefits relates to the liability for annual leave, long service leave and expected short-term incentive obligations to employees.

b. DECOMMISSIONING COSTS

MOVEMENT	2023 $ '000	2022 $ '000
Balance at 1 January	250	250
Balance as at 31 December	**250**	**250**

The provision for decommissioning costs relates to an obligation to dismantle and refurbish a telescope at a future date.

c. MAKE GOOD OF PREMISES

MOVEMENT	2023 $ '000	2022 $ '000
Balance as at 1 January	1,570	1,053
Increase during the year from new lease	577	517
Balance as at 31 December	**2,147**	**1,570**

The provision for make good relates to obligation to make good on leased assets.

20. Provisions (continued)

d. RWS UNITS

MOVEMENT	2023 $ '000	2022 $ '000
Balance as at 1 January	-	-
Net increase during the year	7,761	-
Balance as at 31 December	**7,761**	**-**

The provision for RWS units relates to the cost to resupply RWS units for an existing customer.

e. FINANCE COSTS

MOVEMENT	2023 $ '000	2022 $ '000
Balance as at 1 January	-	-
Net increase during the year	4,500	-
Balance as at 31 December	**4,500**	**-**

The provision for finance costs relates to the agreed fee negotiated between the Group and its lender through a conditional facility amendment executed on 22 December 2023. Refer Note 18 for further details.

f. LEGAL COSTS

MOVEMENT	2023 $ '000	2022 $ '000
Balance as at 1 January	-	-
Net increase during the year	1,462	-
Balance as at 31 December	**1,462**	**-**

The provision for legal costs relates to estimated costs to resolve a legal dispute.

g. WARRANTY PROVISIONS

MOVEMENT	2023 $ '000	2022 $ '000
Balance as at 1 January	7,349	6,425
Reductions resulting from expiry	(72)	(608)
Additional provisions recognised	2,229	1,709
Expenses incurred	(806)	(177)
Balance as at 31 December	**8,700**	**7,349**

The provision for warranty is determined based on Directors' best estimate of the expenditure required to settle the Group's liability under its warranty undertakings for military products, satellite communication terminals and telescopes. The Directors made a critical judgement in relation to the valuation of the provision for warranty costs. The valuation is determined based on the Directors' best estimate of the expenditure required to settle the Group's liability under its warranty obligations.

Estimates and outcomes that have been applied in the assessing warranty provisions may change in the future and the Group will recognise any revisions deemed necessary as a result.

21. Issued capital

	2023 $ '000	2022 $ '000
Balance at the beginning of the financial year – ordinary shares	432,248	413,728
Issue of 12,500,000 equity shares at $1.20 per share on 4 July 2022 (Net of issuance cost of $583,000)	-	14,417
Issue of 168,737 equity shares at $1.20 per share on 27 July 2022 under the share purchase plan	-	203
Issue of 7,653,040 equity shares at $0.5096 per share on 13 Oct 2022 under financing arrangements for nil consideration	-	3,900
Balance at end of the financial year	**432,248**	**432,248**

Fully paid ordinary shares	2023 Number	2022 Number
Balance at beginning of financial year	171,236,006	150,914,229
Issue of new shares at $1.20 on 4 July 2022	-	12,500,000
Issue of new shares at $1.20 under the Share Purchase Plan on 27 July 2022	-	168,737
Issue of new shares at $0.51 on 13 October 2022	-	7,653,040
Balance at end of financial year	**171,236,006**	**171,236,006**

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The shares issued under the Legacy LFSP are restricted shares subject to vesting and performance criteria under the Plan detailed in Note 24 to the financial statements and are treated as in substance options for accounting purposes.

Shares issued under the Legacy LFSP are not included in issued capital as they are treated as in-substance options for accounting purposes.

22. Reserves

	2023 $ '000	2022 $ '000
Foreign currency translation	(224)	277
Employee equity-settled benefits reserve	12,857	12,268
	12,633	**12,545**

Foreign currency translation	**2023 $ '000**	**2022 $ '000**
Balance at beginning of financial year	277	(1,823)
Reclassification of FCTR Loss on disposal of foreign operations	-	4,175
Translation of foreign operations	(501)	(2,075)
Balance at end of financial year	**(224)**	**277**

Exchange differences relating to the translation from US dollars, being the functional currency of the Group's foreign controlled entities in the USA, Euros, being the functional currency of the Group's foreign controlled entity in Germany, Singaporean dollars, being the functional currency of the Group's foreign controlled entity in Singapore and Dirham being the functional currency in the United Arab Emirates, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect to translating the net assets of foreign operations) are reclassified to profit or loss on disposal of the foreign operation.

Employee equity-settled benefits	**2023 $ '000**	**2022 $ '000**
Balance at beginning of financial year	12,268	13,390
Share based payment (reversal)/expense	589	(1,122)
Balance at end of financial year	**12,857**	**12,268**

The employee equity-settled benefits reserve arises on the grant of share options to directors and executives under the Legacy Employee Share Option Plan, Legacy LFSP and Omnibus Employee Incentive Plan. Further information about share-based payments to employees is made in Note 23 to the financial statements.

23. Share-based payments

During the year, the Board determined to replace the Legacy LFSP and Legacy Employee Share Option Plan with the Omnibus Employee Incentive Plan (OEIP). No further issues under the legacy plans are anticipated.

a. LEGACY EMPLOYEE SHARE OPTION PLAN

The Group had an ownership-based compensation scheme for employees (including Directors) of the Group. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting on 28 June 2002, employees may be granted options to purchase ordinary shares at exercise prices determined by the Directors based on market prices at the time the issue of options were made.

Each unlisted share option converts to one ordinary share in Electro Optic Systems Holdings Limited. No amounts are paid or payable by the recipient on receipt of the options. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of expiry.

The number of options granted is determined by the Directors and takes into account both Company and individual achievements against both qualitative and quantitative criteria. Shares are held in an employee share trust until all vesting conditions are satisfied in accordance with their terms of issue.

Reconciliation of Unlisted options issued under the Legacy Employee Share Option Plan:

	2023		2022	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance at beginning of the financial year (i)	720,000	4.26	1,830,000	4.73
Lapsed during the year (iv)	(350,000)	3.67	(1,110,000)	5.04
Balance at end of the financial year (v)	**370,000**	**4.81**	**720,000**	**4.26**
Exercisable at the end of the year	**-**	**-**	**192,500**	**2.99**

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2023	220,000	20/06/2018	31/03/2023	$2.99	$61,369
	435,000	19/05/2020	18/05/2025	$4.75	$279,705
	65,000	15/03/2021	16/03/2026	$5.27	$101,920
	720,000				**$442,994**
2022	220,000	20/06/2018	31/03/2023	$2.99	$61,369
	220,000	16/11/2020	16/11/2025	$5.82	$197,134
	635,000	19/05/2020	18/05/2025	$4.75	$408,305
	475,000	15/03/2021	16/03/2026	$5.27	$744,800
	280,000	22/07/2021	22/07/2026	$4.31	$202,160
	1,830,000				**$1,613,768**

23. Share-based payments (continued)

(ii) Granted during the year

There were no options granted during the year (2022: nil).

(iii) Exercised during the year

There were no options exercised during the year (2022: nil).

(iv) Lapsed during the year

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2023	(220,000)	20/06/2018	31/03/2023	$2.99	$(61,369)
	(110,000)	19/05/2020	18/05/2025	$4.75	$(103,250)
	(20,000)	15/03/2021	16/03/2026	$5.27	$(31,360)
	(350,000)				**$(195,979)**
2022	(200,000)	19/05/2020	18/05/2025	$4.75	$(128,600)
	(220,000)	16/11/2020	16/11/2025	$5.82	$(197,134)
	(410,000)	15/03/2021	16/03/2026	$5.27	$(642,880)
	(280,000)	22/07/2021	22/07/2026	$4.31	$(202,160)
	(1,110,000)				**$(1,170,774)**

(v) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2023					
Staff options	325,000	19/05/2020	18/05/2025	$4.75	$305,055
Staff options	45,000	15/03/2021	16/03/2026	$5.27	70,560
	370,000				**$375,615**
2022					
Staff options	220,000	20/06/2018	31/03/2023	$2.99	$61,369
Staff options	435,000	19/05/2020	18/05/2025	$4.75	$279,705
Staff options	65,000	15/03/2021	16/03/2026	$5.27	$101,920
	720,000				**$442,994**

These employee options have similar vesting and forfeiture conditions as those issued under the Legacy LFSP summarised in Note 23(b). The options issued were priced using the Monte Carlo Simulation method model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

23. Share-based payments (continued)

The inputs used in the model for these option grants are summarised in the table below:

Issue date	20/06/2018	19/05/2020	16/11/2020	15/03/2021	22/07/2021
Number of staff options	220,000	635,000	220,000	475,000	280,000
Dividend yield	-	-	-	-	-
Expected volatility (linearly interpolated)	30.00%	40.00%	40.00%	45.00%	45.00%
Risk free interest rate	2.32%	0.40%	0.31%	0.71%	0.58%
Expected life of options	1,745 days	1,789 days	1,825 days	1,827 days	1,826 days
Grant date share price	$2.91	$4.98	$6.07	$5.37	$4.16
Exercise price	$2.99	$4.75	$5.82	$5.27	$4.31
Fair value of options on grant date:					
Tranche A (50% of options issued)	$0.2885	$0.557	$0.773	$1.370	$0.494
Tranche B (50% of options issued)	$0.2694	$0.729	$1.019	$1.766	$0.950

Staff options carry no rights to dividends and no voting rights.

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from the employees (nil) is recognised in the financial statements over the vesting period.

b. LEGACY LOAN-FUNDED SHARE PLAN

This note sets out the details on the Legacy Loan Funded Share Plan (LFSP) and the grants made under the Legacy LFSP in 2018, 2020 and 2021. During 2023 no new loan funded shares were granted. A new Omnibus Employee Incentive Plan was established in 2023. Refer note 23(c).

The Board established an employee incentive scheme known as the Electro Optic Systems Holdings Limited LFSP, pursuant to which fully paid restricted ordinary shares in the Company (“Shares) are acquired by participants (“Participants”) of the Group using a loan made to them by the Company. Shareholders approved the establishment of the LFSP and the participation of Directors in the LFSP at the Annual General Meeting held on 24 April 2018.

The loans are limited recourse, interest and fee free and are repayable in full on the earlier of the termination date of the loan (five years) or the date on which the shares are sold in accordance with the terms of the LFSP.

Under the applicable Accounting Standards, the Legacy LFSP shares are accounted for as options, which give rise to share based payments.

The shares are subject to both ‘Vesting Conditions’ and ‘Forfeiture Conditions’:

- The vesting conditions are split into two different tranches which are outlined in the tables below. Participants are required to satisfy the Vesting Conditions in order for their Shares to vest.
- While Participants hold their shares, they will be subject to forfeiture conditions and participants will forfeit their shares if either they fail to satisfy the vesting conditions or they cease to be employed or continue to provide services to the Group in certain circumstances.

Once the vesting conditions have been satisfied, removed or lifted, the shares vest and participants may deal with them in accordance with the rules of the Legacy LFSP subject to sale restrictions and other legal restrictions (such as under the Company’s trading policy).

23. Share-based payments (continued)

The shares will vest at the end of each 'vesting period' in the manner set out in the tables below, provided that the following conditions are met:

(a) participants continue to provide services to the Group on each of the vesting dates (or such other date on which the Board makes a determination as to whether the vesting conditions have been met);

(b) the performance hurdles set out below are satisfied, which relate to the Group's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for shares to vest under each tranche; and

(c) further vesting conditions may apply to individualised arrangements.

If the vesting conditions are not satisfied, or if the Board determines that they cannot be satisfied, Directors and selected employees will forfeit their unvested shares (unless the Board exercises its discretion to permit those shares to vest in accordance with the terms of the Legacy LFSP).

All the ordinary restricted fully paid shares issued have been valued using the Monte Carlo Simulation method model as the shares have a share price hurdle in the vesting conditions. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, vesting restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

Reconciliation of Shares issued under the Legacy LFSP:

	2023	2022
	Number	Number
Balance at beginning of the financial year	7,401,875	10,292,500
Lapsed during the year	(6,611,875)	(2,890,625)
Balance at end of the financial year	**790,000**	**7,401,875**

23. Share-based payments (continued)

The following tables summarise the loan funded shares issued to date:

(i) 2018 Legacy LFSP issues

Under the terms of the Legacy LFSP, once vested, the Director or executive has the right to acquire a share at the specified price during the exercise period until the expiry date. Due to the expiry of the exercise period, the remaining vested but unexercised shares from the 20 June 2018 issue lapsed during the reporting period.

2018 Loan funded shares:	
Issue date	20 June 2018 (Shareholders approved the participation of Directors in the Legacy LFSP at the Annual General Meeting (AGM) held on 24 April 2018)
Shares issued	5,135,000 (4,000,000 shares issued to Directors and KMP)
Fair value at issue date	$1,432,407
Dividend yield	-
Expected volatility (linearly interpolated)	30.00%
Risk free interest rate	2.32%
Expected life of options	1,745 days
Issue price	$2.99
Grant date share price	$2.91

Under the terms of the Legacy LFSP, once vested, the Director or executive has the right to acquire a share at the specified price during the exercise period until the expiry date. Due to the expiry of the exercise period, the remaining vested but unexercised shares from the 20 June 2018 issue lapsed during the reporting period.

24. Share-based payments (continued)

(ii) 2020 Legacy LFSP issues

2020 Loan funded shares:				
Issue date	19 May 2020	29 May 2020	10 August 2020	14 October 2020
Shares issued	2,315,000	2,500,000	860,000	150,000
Fair value at issue date	$1,488,545	$2,463,750	$651,880	$125,925
Dividend yield	-	-	-	-
Expected volatility (linearly interpolated)	40.00%	40.00%	40.00%	40.00%
Risk free interest rate	0.31%	0.34%	0.34%	0.23%
Expected life of options	1,789 days	1,752 days	1,679 days	1,643 days
Issue price	$4.75	$4.92	$5.62	$5.47
Grant date share price	$4.98	$5.68	$5.68	$6.01

Vesting conditions:	**Tranche A: (applies to 50% of the initial total number of shares issued above)**
	Measures and hurdles: A share Price Hurdle of $9.50 by 31 December 2021 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2021*).
	Vesting period: The period of 2 calendar years ending 31 December 2021*
	Any vested shares are now eligible to be sold
	Other conditions:
	i. Executives have various Group and Divisional EBITDA targets to be met as performance hurdles; and ii. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

Vesting conditions:	**Tranche B: (applies to 50% of the initial total number of shares issued above)**
	Initial measures and hurdles: A Share Price Hurdle of $11.50 by 31 December 2022 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 31 December 2022 **).
	Vesting period: The period of four calendar years ending 31 December 2023**
	Vested shares can be sold after:
	30-Jun-24: (25% of vested shares)
	30-Sep-24:(50% of vested shares)
	31-Dec-24: (75% of vested shares)
	31-Mar-25: (100% of vested shares)
	Other conditions:
	i. Executives have various Group and Divisional EBITDA targets to be met as performance hurdles; and ii. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

* This price hurdle date of 31 December 2021 was extended by three years by the Directors on 16 November 2021 for executives and staff only to now be 31 December 2024. As the price hurdle was not met, 1,250,000 shares issued to Directors lapsed on 31 December 2021.

** This price hurdle date of 31 December 2022 was extended by three years by the Directors on 16 November 2021 for executives and staff only to now be 31 December 2025. As the price hurdle was not met, 1,250,000 shares issued to Directors lapsed on 31 December 2022.

23. Share-based payments (continued)

(iii) 2021 Legacy LFSP issues

2021 Loan funded shares:		
Issue date	15 March 2021	31 May 2021
Shares issued	1,250,000	150,000
Fair value at issue date	$2,602,880	$114,750
Dividend yield	-	-
Expected volatility	45%	45%
Risk free interest rate	0.71%	0.71%
Expected life of options	1,827 days	1,491 days
Issue price	$5.27	$4.06
Grant date share price	$5.37	$4.10

Vesting conditions:	**Tranche A: (applies to 50% of the total number of shares to be issued above)**
	Measures and hurdles: A share price hurdle of $9.50 by 30 June 2023 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2023*).
	Vesting period: The period ending 30 June 2023*
	Vested shares can be sold after:
	30-Jun-23: (25% of vested shares)
	30-Sep-23: (50% of vested shares)
	31-Dec-23: (75% of vested shares)
	31-Mar-24: (100% of vested shares)
	Other conditions:
	i. Executives have various Group and Divisional EBITDA targets to be met as performance hurdles; and ii. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

	Tranche B: (applies to 50% of the total number of shares to be issued above)
	Measures and hurdles: A share price hurdle of $11.50 by 30 June 2025 (this hurdle must be reached on at least 30 trading days, not necessarily consecutive, by 30 June 2025**).
	Vesting period: The period ending 30 June 2025**
	Vested shares can be sold after:
	30-Jun-25: (25% of vested shares)
	30-Sep-25:(50% of vested shares)
	31-Dec-25: (75% of vested shares)
	31-Mar-26: (100% of vested shares)
	Other conditions:
	i. Executives have various Group and Divisional EBITDA targets to be met as performance hurdles; and ii. Participants in the various sectors have to meet the additional hurdles established by the Directors in relation to each sector.

* This price hurdle date of 30 June 2023 was extended by three years by the Directors on 16 November 2021 for executives and staff to now be 30 June 2026. As the price hurdle was not met, 75,000 shares issued to Directors lapsed on 30 June 2023.

** This price hurdle date of 30 June 2025 was extended by three years by the Directors on 16 November 2021 for executives and staff to now be 30 June 2028.

23. Share-based payments (continued)

(iv) Other features of the Legacy LFSP structure

Shares are held in an employee share trust, on behalf of participants, until all vesting conditions are satisfied in accordance with their terms of issue and the Loan relating to the Shares is repaid in full.

If the Company pays dividends or make capital distributions, the after-tax value of any dividends paid or distributions made to a participant will be applied to repay the Loan. The balance (i.e., the estimated value of the tax payable by the participant on the dividend or distribution) is paid to the participant to allow them to fund their tax liability on the dividend or distribution.

At the end of the year for the vesting conditions and subject to continuous employment or engagement of services with the Company, the participants are able to dispose of their shares on repayment of any outstanding loan balance. However, the Board may impose sale restrictions on the shares for a period of time after vesting.

There may be circumstances where Legacy LFSP participants cease working for the Group prior to the vesting of their LFSP shares and where participants cease working for the entity after the vesting of their Legacy LFSP shares but prior to there being a right of sale of some or all of those vested shares. In either instance, on cessation of employment, the Board has discretion to determine whether the participant is a Bad Leaver, a Good Leaver or a Leaver and the following provisions apply:

Bad Leaver. All unvested loan funded shares held by the participant will be forfeited and any vested loan funded shares will be disposed of or bought-back, in each case in accordance with the buy-back rules of the scheme, if either:

- they remain subject to any conditions or disposal restrictions;
- they remain held in trust (for any reason); or
- the loan applicable to those Shares has not been repaid in full.

Good Leaver. Subject to the Board's discretion to determine otherwise (including the discretion to permit some or all unvested loan funded shares to vest based on its assessment of the circumstances in which the Participant has ceased employment), unvested loan funded shares will vest pro rata to the proportion of the vesting period that has elapsed as at the date on which employment ceases and having regard to the extent to which any performance conditions have been achieved (as determined by the Board). The balance of loan funded shares that do not vest will be disposed of or bought-back, in each case in accordance with the buy-back rules of the scheme.

Leaver. Unvested loan funded shares will normally be disposed of or bought-back, in each case in accordance with the buy-back rules of the scheme, subject to the Board's discretion to permit some or all of those unvested loan funded shares to vest based on its assessment of the circumstances in which the participant has ceased employment.

A Good Leaver or Leaver may retain vested loan funded shares and may deal with any vested loan funded shares subject to repaying the outstanding loan balance by the earlier of its expiry date or the date which is three months from the cessation date or twelve months in the case of a participant who ceases employment due to death.

23. Share-based payments (continued)

c. OMNIBUS EMPLOYEE INCENTIVE PLAN ("OEIP")

The Board has established a new long-term incentive plan Omnibus Employee Incentive Plan for senior management during 2023 to align remuneration with the creation of shareholder value over the long-term.

There is not expected to be any change in share capital as a result of the 2023 allocation as it is anticipated this allocation will be funded by shares already issued and held in trust as lapsed shares from the existing Loan-Funded Share Plan.

(i) Share options OEIP

Each share option converts to one ordinary share in Electro Optic Systems Holdings Limited. The options carry neither rights to dividends nor voting rights. The options may be exercised by paying the exercise price at any time from the date of vesting to the date of expiry.

The number of options granted is determined by the Directors and takes into account both the seniority of the individual role and its ability to drive Group and divisional performance.

The options will vest if the vesting conditions have been met on a testing date in the following manner, provided that the employee continues to provide services to the Group on the date of vesting:

- 50% of options vest if the share price hurdle of $1.20 is met for a period of 20 trading days (not necessarily consecutive) prior to a testing date.
- The remaining 50% of options vest if the share price hurdle of $3.00 is met for a period of 20 trading days (not necessarily consecutive) prior to a testing date.
- Testing dates are 31 December 2024, 31 December 2025 and 31 December 2026.
- The options are exercisable from vesting date until 31 December 2028. Options will vest on a straight-line basis for share price performance between $1.20 and $3.00.

Movements in unlisted options issued under the Omnibus Employee Incentive Plan:

	2023		2022	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance at beginning of the financial year	-	-	-	-
Granted during the year	2,953,087	0.50	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Balance at end of the financial year	**2,953,087**	**0.50**	**-**	**-**
Exercisable at the end of the year	**-**	**-**	**-**	**-**

The options issued were priced using the Monte Carlo Simulation method model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

23. Share-based payments (continued)

Shareholder approval will be sought at the 2024 Annual General Meeting for a grant of 2,100,000 share options to the Managing Director and CEO, Dr Andreas Schwer. Although subject to shareholder approval, the Group is required to commence recognition of the fair value expense of the proposed grant.

The inputs used in the model for these option grants are summarised in the table below:

Date	**21/04/23**	**14/07/23**
Number of staff options	3,340,000	1,713,087
Dividend yield	-	-
Annual volatility	65.00%	70.00%
Risk free interest rate	3.22%	3.96%
Expected life of options	5.69 years	5.46 years
Grant date share price	$0.58	$1.09
Exercise price	$0.50	$0.50
Fair value of options on grant date	$0.275	$0.717

Staff options carry no rights to dividends and no voting rights. The expiry date of the options is 31 December 2028.

(ii) Share rights OEIP

Each share right converts to one ordinary share in Electro Optic Systems Holdings Limited. No amounts are paid or payable by the recipient on receipt of the share rights. Rights will be converted into ordinary shares upon the satisfaction of the vesting conditions.

The number of rights granted is determined by the Directors and takes into account both the seniority of the individual role and its ability to drive Group and divisional performance.

The rights will vest in the below proportions based purely on a service condition if the Employee remains employed by the Group on the below hurdle dates:

- One-third of rights vest if employed by the Group on 31 December 2024;
- One-third of rights vest if employed by the Group on 31 December 2025; and
- One-third of rights vest if employed by the Group on 31 December 2026.

Movements in share rights issued under the Omnibus Employee Incentive Plan:

	2023		**2022**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Balance at beginning of the financial year	-	-	-	-
Granted during the year	1,341,117	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Balance at end of the financial year	**1,341,117**	**-**	**-**	**-**
Exercisable at the end of the year	**-**	**-**	**-**	**-**

23. Share-based payments (continued)

The rights issued were priced using the Binomial model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions.

Shareholder approval will be sought at the 2024 Annual General Meeting for a grant of 1,260,000 share rights to the Managing Director and CEO, Dr Andreas Schwer. Although subject to shareholder approval, the Group is required to commence recognition of the fair value expense of the proposed grant.

The inputs used in the model for these rights grants are summarised in the table below:

Grant date	**21/04/23**			**14/7/23**		
	Tranche 1	**Tranche 2**	**Tranche 3**	**Tranche 1**	**Tranche 2**	**Tranche 3**
Number of staff rights	668,000	668,000	668,000	199,039	199,039	199,039
Dividend yield	-	-	-	-	-	-
Annual volatility	80%	70%	75%	90%	80%	80%
Risk free interest rate	3.31%	3.08%	3.08%	3.70%	3.50%	3.68%
Expected life of rights	1.69 years	2.69 years	3.69 years	1.46 years	2.46 years	3.46 years
Grant date share price	$0.58	$0.58	$0.58	$1.09	$1.09	$1.09
Exercise price	-	-	-	-	-	-
Fair value of rights on grant date	$0.58	$0.58	$0.58	$1.09	$1.09	$1.09

24. Accumulated losses

	2023 $ '000	**2022 $ '000**
Balance at beginning of financial year	(208,499)	(93,959)
Net (loss) attributable to members of the parent entity	(33,275)	(114,540)
Balance at end of financial year	**(241,774)**	**(208,499)**

25. Notes to the cash flow statement

a. RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	2023 $ '000	2022 $ '000
Cash and cash short-term deposits – current	70,997	21,681

b. RECONCILIATION OF (LOSS) BEFORE INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2023 $ '000	2022 $ '000
(Loss) before income tax from continuing operations	(40,193)	(62,885)
(Loss) before income tax from discontinued operations	-	(61,954)
(Loss) before income tax	**(40,193)**	**(124,839)**
Reconciling items which include operating activities from both continuing and discontinued operations:		
Cash paid on bargain purchase included in investing activities	-	421
Accrued interest, finance costs and other financing expenses	16,488	6,414
Amortisation of intangibles	1,597	1,997
Equity settled share-based payments	589	(1,122)
Depreciation of property, plant and equipment	6,356	4,483
Impairment of assets	-	54,496
Depreciation of right of use assets	4,430	5,576
Loss on sale of property, plant and equipment	-	11
Tax received/(paid)	16,747	(1,014)
Foreign exchange movements	(5,590)	2,379
(Increase)/decrease in assets		
Receivables and contract assets	95,336	(20,584)
Inventories	1,444	(262)
Prepayments	1,208	205
Increase/(decrease) in liabilities		
Provisions	18,668	348
Trade and other payables	(2,375)	5,417
Deferred income	(1,581)	14,502
Net cash inflows / (outflows) from operating activities	**113,124**	**(51,572)**

26. Related party disclosures

a. EQUITY INTERESTS IN RELATED PARTIES

Details of the percentage of Ordinary Shares held in subsidiaries are disclosed in Note 27.

b. KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation of the key management personnel of the Group is set out below:

	2023 $ '000	2022 $ '000
Short-term benefits	2,523	3,363
Post-employment benefits	119	243
Share based payments	436	(26)
Termination benefits	146	194
Long-term benefits	18	101
Total	**3,242**	**3,875**

c. TRANSACTIONS WITH OTHER RELATED PARTIES

Other related parties include associates, joint venture partners, and subsidiaries.

The Group did not enter into any transactions with other related parties outside of the ordinary course of business.

d. OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL OR DIRECTOR-RELATED ENTITIES

During the year, the Company paid $140,000 (2022: $14,575) to Latour Pty Limited, a company associated with Mr Garry Hounsell in respect of directors' fees and superannuation for Mr Garry Hounsell.

During the year, the Company paid $70,000 (2022: $70,000) to GCB Stratos Consulting Pty Limited, a company associated with Air Marshall Geoffrey Brown AO in respect of directors' fees and superannuation for Air Marshall Geoffrey Brown AO.

During the year, the Company paid $70,000 (2022: $70,000) to Technology Innovation Partners Pty Ltd, a company associated with the Hon Kate Lundy in respect of directors' fees and superannuation for the Hon Kate Lundy.

e. PARENT ENTITY

The parent entity in the Group is Electro Optic Systems Holdings Limited.

27. Controlled entities

Name of entity	Country of incorp-oration	December 2023 %	December 2022 %
Parent Entity			
Electro Optic Systems Holdings Limited (i), (ii)	Australia		
Controlled Entities			
Electro Optic Systems Pty Limited (ii), (iii)	Australia	100	100
EOS Defence Systems Pty Limited (ii), (iii)	Australia	100	100
FCS Technology Holdings Pty Limited (ii)	Australia	100	100
EOS Space Systems Pty Limited (ii)	Australia	100	100
EOS UAE Holdings Pty Limited (ii)	Australia	100	100
EOS Communications Systems Pty Ltd (ii)	Australia	100	100
EM Solutions Pty Ltd (ii), (iii)	Australia	100	100
EOS Loan Plan Pty Ltd (iv)	Australia	-	-
Australian Missile Alliance Pty Ltd	Australia	100	100
EOS Optical Technologies Ltd	New Zealand	100	100
EOS USA, Inc. (Inc in Nevada)	USA	100	100
EOS Space Technologies, Inc. (Inc in Arizona)	USA	100	100
EOS Defense Systems, Inc (Inc in Arizona)	USA	100	100
EOS Defense Systems USA Inc (Inc in Alabama) (v)	USA	100	100
EOS Advanced Technologies LLC (vi)	UAE	49	49
EOS Optronics GmbH	Germany	100	100
EOS Defense Systems Pte Limited (vii)	Singapore	100	100

(i) Electro Optic Systems Holdings Limited is the head entity within the tax-consolidated Group.

(ii) These companies form part of the Australian consolidated tax entity.

(iii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Electro Optic Systems Holdings Limited pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/875* and are relieved from the requirement to prepare and lodge an audited financial report.

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited entered into a deed of cross guarantee with two of its Australian wholly-owned subsidiaries Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, the parent entity Electro Optic Systems Holdings Limited entered into a Deed of Assumption which joined EM Solutions Pty Limited as part of the Deed of Cross Guarantee from the effective date of acquisition which was 11 October 2019.

(iv) EOS Loan Plan Pty Ltd is the trustee of the Legacy LFSP. EOS Loan Plan Pty Ltd was incorporated on 5 December 2019. Electro Optic Systems Holdings Limited has the ability to direct the relevant activities of the entity.

(v) Refer to note 2(f) on judgments made in relation to the consolidation of EOS Defense Systems USA Inc.

27. Controlled entities (continued)

(vi) Whilst the Group owns less than 50% of the shares, pursuant to the shareholder and related agreements, it has existing rights that give it the ability to direct the relevant activities of the company and is entitled to 80% of company distributions.

(vii) EOS Defense Systems Pte Limited is audited by Assurance Affiliates, Chartered Accountants in Singapore and EOS Advanced Technologies LLC is audited by M A International Consulting LLC in UAE and are the only entities with a separately appointed statutory auditor.

a. CONSOLIDATED PROFIT OR LOSS, CONSOLIDATED BALANCE SHEET AND MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS OF ENTITIES PARTY TO THE DEED OF CROSS GUARANTEE

The consolidated profit or loss of the entities which are parties to the Deed of Cross Guarantee are:

	2023 **$ '000**	**2022** **$ '000**
Revenue and other income	206,920	130,504
Foreign exchange gains	958	7,383
Changes in inventories of work in progress and finished goods	(238)	(3,738)
Raw materials and consumables used	(122,083)	(81,836)
Employee benefits expense	(37,159)	(40,647)
Administration expenses	(26,454)	(22,696)
Amortisation of intangibles	(1,597)	(1,597)
Interest expense on lease liabilities	(1,064)	(1,170)
Finance costs	(34,093)	(12,935)
Depreciation of property, plant and equipment	(4,671)	(2,591)
Depreciation of right of use assets	(2,436)	(3,256)
Impairment of assets	-	(7,315)
Loss on disposal of subsidiary	-	(84,730)
Loss on sale of fixed assets	-	(11)
Occupancy costs	(1,334)	(1,421)
Other expenses	(1,069)	(2,297)
Provision for loss on loans to subsidiaries	(63,521)	-
(Loss) before income tax	**(87,841)**	**(128,353)**
Income tax benefit	6,997	9,405
(Loss) for the year	**(80,844)**	**(118,948)**

27. Controlled entities (continued)

b. CONSOLIDATED PROFIT OR LOSS, CONSOLIDATED BALANCE SHEET AND MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS OF ENTITIES PARTY TO THE DEED OF CROSS GUARANTEE

The consolidated balance sheet of the entities which are parties to the Deed of Cross Guarantee:

	2023 $ '000	2022 $ '000
CURRENT ASSETS		
Cash and short-term deposits	63,942	18,221
Trade and other receivables	3,282	6,182
Current tax asset	-	12,245
Contract assets	29,014	127,823
Inventories	68,862	69,180
Other	35,501	15,121
TOTAL CURRENT ASSETS	**200,601**	**248,772**
NON-CURRENT ASSETS		
Contract asset	38,879	36,520
Loans to subsidiaries	609	41,734
Deferred tax assets	8,950	3,326
Security deposit	45,828	35,444
Right of use asset	13,571	15,900
Goodwill	12,373	12,373
Intangible assets	18,283	12,446
Property, plant and equipment	22,680	30,959
TOTAL NON-CURRENT ASSETS	**161,173**	**188,702**
TOTAL ASSETS	**361,774**	**437,474**
CURRENT LIABILITIES		
Trade and other payables	37,845	38,862
Current tax payable	2,970	-
Secured borrowings	19,875	21,391
Unsecured borrowings	-	1,904
Lease liabilities	3,186	2,894
Contract liabilities	16,259	19,765
Provisions	23,791	10,162
TOTAL CURRENT LIABILITIES	**103,926**	**94,978**
NON-CURRENT LIABILITIES		
Secured borrowings	44,947	49,443
Lease liabilities	14,715	19,331
Provisions	13,801	9,082
TOTAL NON-CURRENT LIABILITIES	**73,463**	**77,856**
TOTAL LIABILITIES	**177,389**	**172,834**
NET ASSETS	**184,385**	**264,640**
EQUITY		
Issued capital	432,247	432,247
Reserves	12,858	12,269
Accumulated losses	(260,720)	(179,876)
TOTAL EQUITY	**184,385**	**264,640**

27. Controlled entities (continued)

The consolidated accumulated losses of the entities which are party to the Deed of Cross Guarantee are:

	2023 $ '000	2022 $ '000
Balance at the start of the year	(179,876)	(60,928)
Net (loss) for the year	(80,844)	(118,948)
Balance at end of the year	**(260,720)**	**(179,876)**

28. Joint operations

The Group is party to a joint operation. The Group has a share in the operation based on capital contributions that entitles it to a proportionate share of revenue earned from the operation.

29. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, contract assets, borrowings, finance leases, cash and short-term deposits. These instruments expose the Group to a variety of risks that it must manage including, market risk (such as currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group does not use derivative financial instruments to hedge these risk exposures.

The Directors consider that the carrying amount of financial assets and liabilities recognised in these financial statements approximate their fair values. The amounts disclosed in this note exclude contract asset balances as these ae not financial assets.

Risk exposures and responses

a. INTEREST RATE RISK

The Group's exposure to market interest rates relates primarily to the Group's cash holdings.

At balance date the Group had the following mix of financial assets exposed to interest rate risk that are not designated in cash flow hedges:

Financial assets	2023 $ '000	2022 $ '000
Cash and short-term deposits	70,997	21,681
Security deposits	67,056	35,588
Total	**138,053**	**57,269**

At balance date the Group had financial liabilities with a fixed rate of interest. These liabilities therefore do not introduce an exposure to movement in interest rates.

Financial liabilities	2023 $ '000	2022 $ '000
Borrowings	64,822	72,738
Total	**64,822**	**72,738**

29. Financial risk management objectives and policies (continued)

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

At 31 December 2023, if interest rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	**Post-tax (loss) higher/(lower)**		**Equity higher/(lower)**	
	2023 $ '000	**2022 $ '000**	**2023 $ '000**	**2022 $ '000**
Consolidated				
+1% (100 basis points)	966	391	966	391
-0.1% (10 basis points)	(97)	(39)	(97)	(39)

The movements in profits are due to lower interest rates on cash balances.

b. FOREIGN CURRENCY RISK

The Group's financial results can be significantly affected by movements in the US$/A$ exchange rates. There are also exposures to Singapore dollars, Emirati Dirham, Euro and the New Zealand dollars from operations in those countries. Exchange rates are managed within approved policy parameters using natural hedges and no derivatives are used.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating entity in currencies other than the functional currency.

The policy of the Group is to convert surplus foreign currencies to Australian dollars. The Group also holds cash deposits in US dollars to secure US dollar bank guarantees and performance bonds to overseas customers.

At 31 December 2023, the Group the following exposure to US$ foreign currency:

	2023 A$ '000	**2022 A$ '000**
Financial assets		
Cash and short-term deposits	40,630	11,056
Security deposits	38,545	34,136
Trade and other receivables	5,815	3,048
Total	**84,990**	**48,240**
Financial liabilities		
Lease liabilities	4,862	1,006
Trade and other payables	37,056	29,137
Total	**41,918**	**30,143**
Net exposure	**43,072**	**18,097**

29. Financial risk management objectives and policies (continued)

All US$ denominated financial instruments were translated to A$ at 31 December 2023 at the exchange rate of 0.684 (2022: 0.6775).
At 31 December 2023 and 2022, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post-tax profit higher/(lower)		Equity higher/(lower)	
	2023 $ '000	2022 $ '000	2023 $ '000	2022 $ '000
Consolidated				
AUD/USD +10%	(2,765)	(10,787)	(2,765)	(10,787)
AUD/USD -5%	1,601	6,245	1,601	6,245

At 31 December 2023, the Group had the following exposure to Singapore $ foreign currency:

	2023 $ '000	2022 $ '000
Financial assets		
Cash and short-term deposits	5,547	1,612
Trade and other receivables	518	1,044
Total	**6,065**	**2,656**
Financial liabilities		
Trade and other payables	900	432
Lease liabilities	982	1,042
Total	**1,882**	**1,474**
Net exposure	**4,183**	**1,182**

All Singapore $ denominated financial instruments were translated to A$ at 31 December 2023 at the exchange rate of 0.9014 (2022: 0.9102).

At 31 December 2023 and 2022, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post-tax profit higher/(lower)		Equity higher/(lower)	
	2023 $ '000	2022 $ '000	2023 $ '000	2022 $ '000
Consolidated				
AUD/SING +10%	(266)	(75)	(266)	(75)
AUD/SING -5%	154	44	154	44

29. Financial risk management objectives and policies (continued)

At 31 December 2023, the Group had the following exposure to Euro € foreign currency:

	2023 $ '000	2022 $ '000
Financial assets		
Cash and short-term deposits	5,398	-
Trade and other receivables	8	-
Total	**5,406**	**-**
Financial liabilities		
Trade and other payables	606	-
Total	**606**	**-**
Net exposure	**4,800**	**-**

All Euro € denominated financial instruments were translated to A$ at 31 December 2023 at the exchange rate of 0.6181.

At 31 December 2023, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post-tax profit higher/(lower)		Equity higher/(lower)	
	2023 $ '000	2022 $ '000	2023 $ '000	2022 $ '000
Consolidated				
AUD/EUR +10%	(305)	-	(305)	-
AUD/EUR -5%	177	-	177	-

The Group believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

As noted, foreign currency transactions entered into during the financial year are managed within approved policy parameters using natural hedges. The Directors do not consider that the net exposure to foreign currency transactions is material after considering the effect of natural hedges.

c. CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group is exposed to credit risk from its operating activities (primarily trade receivables and contract asset) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings from international credit agencies. Refer Note 7 and Note 8 for further information on credit assessment for receivables and contract assets.

29. Financial risk management objectives and policies (continued)

d. LIQUIDITY RISK MANAGEMENT

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate risk management framework for the management of the Group's short, medium and long term funding and liquidity requirements. The Group manages liquidity by seeking to maintain adequate cash reserves, continuously monitoring forecast and actual cash flows and managing the maturity profiles of financial assets.

Liquidity and interest tables

The following table detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Consolidated	Weighted average effective interest rate %	Less than 1 month $ '000	1-3 months $ '000	3 months to 1 year $ '000	1-5 years $ '000
2023					
Borrowings	19%	-	-	20,505	52,072
Trade payables & accruals	-	15,909	13,508	11,387	-
Lease liabilities	5%	402	809	3,620	19,088
2022					
Borrowings	20%			28,846	72,576
Trade payables & accruals	-	8,121	11,028	24,030	-
Lease liabilities	5%	397	704	2,811	20,534

29. Financial risk management objectives and policies (continued)

The following table detail the Group's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on these assets except where the Group anticipates that the cash flow will occur in a different period.

Consolidated	Weighted average effective interest rate %	Less than 1 month $ '000	1-3 months $ '000	3 months to 1 year $ '000	1-5 years $ '000
2023					
Non-interest bearing					
Cash and cash equivalent	-	70,068	-	-	-
Receivables	-	2,634	4,378	419	-
Security deposits	0.01%	-	-	21,214	45,842
Fixed interest rate instruments	0.05%	929	-	-	-
Total		**73,631**	**4,378**	**21,633**	**45,842**
2022					
Non-interest bearing					
Cash and cash equivalent	-	15,369	-	-	-
Receivables	-	4,711	1,385	277	-
Security deposits	-	-	119	125	35,344
Fixed interest rate instruments	0.04%	6,312	-	-	-
Total		**26,392**	**1,504**	**402**	**35,344**

e. PRICE RISK

The Group's exposure to commodity price risk is minimal. The Group does not make investments in equity securities.

29. Financial risk management objectives and policies (continued)

f. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

	2023 $ '000	2022 $ '000
FINANCIAL ASSETS		
Amortised cost		
Cash and short-term deposits	70,997	21,681
Trade and other receivables	8,466	7,419
Security deposits	67,056	35,588
Total financial assets at amortised cost	**146,519**	**64,688**
Current	100,549	29,100
Non-current	45,970	35,588
FINANCIAL LIABILITIES		
Interest bearing loans and borrowings		
Borrowings	64,822	72,738
Lease liabilities	23,919	24,446
Total interest-bearing loans and borrowings	**88,741**	**97,184**
Current	24,751	27,234
Non-current	63,990	69,950
Trade and other payables	**61,391**	**65,347**
Current	61,391	65,347
Non-current	-	-

g. COMMODITY PRICE RISK

The Group's exposure to commodity price risk is minimal.

30. Segment Information - continuing operations

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance.

a. SEGMENT DETERMINATION

The Group identifies its operating segments based on internal reports reviewed and used by the Group’s chief operating decision maker (the Chief Executive Officer) to determine business performance and resource allocation. Operating segments are aggregated after considering the nature of the products and services, nature of production processes, type of customer and distribution methods. As a result, EM Solutions and Space Systems segments were merged to form an enlarged Space Systems segment.

As a result, the Group’s reportable segments are Defence Systems and Space Systems.

(i) Defence Systems

Defence Systems develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers. These products either replace or reduce the role of a human operator for a wide range of existing and future weapon systems in the US, Australasia, Middle East and other markets.

(ii) Space Systems

Space Systems has a range of ground products available to support the Australian and international space markets. They include:

- significant investments into passive optical and laser sensing equipment at both its Mt Stromlo and Learmonth sites;
- manufacturing and supply of various telescopes and dome enclosures for customers around the world. Space Systems astrometric products provide reliable and high-quality optical systems under demanding environmental conditions; and
- specialisation in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world. Developments in the Group’s laser technology has opened aligned markets in space optical communications and various high power laser applications.

b. GEOGRAPHIC ACTIVITY

The Group continues to operate in Australia, USA, Singapore, UAE, New Zealand and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems, the manufacture of electro-optic fire control systems and the design and manufacturing of microwave satellite dishes and receivers.

30. Segment Information - continuing operations (continued)

c. SEGMENT INFORMATION

Segment revenues - continuing operations	2023 $ '000	2022 $ '000
Space	63,891	31,961
Defence	155,362	105,951
Total of all segments	**219,253**	**137,912**

Segment results - continuing operations	2023 $ '000	2022 $ '000
Space	7,334	(7,039)
Defence	(12,536)	(40,399)
Total of all segments	**(5,202)**	**(47,438)**
Unallocated holding company costs	(34,991)	(15,447)
(Loss) before income tax expense	**(40,193)**	**(62,885)**
Income tax benefit	6,086	9,278
(Loss) for the year	**(34,107)**	**(53,607)**

The revenue reported above represents revenue from external customers. The Group had two customers that each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment. One customer represented revenue of $67.6m and the other represented $49.6m during the year.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, investment revenue and finance costs and income tax benefit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

30. Segment Information - continuing operations (continued)

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

Segment assets and liabilities - continuing operations

	Assets		Liabilities	
	31 December 2023 $ '000	**31 December 2022 $ '000**	**31 December 2023 $ '000**	**31 December 2022 $ '000**
Space	50,229	39,858	29,009	12,664
Defence	204,951	320,271	165,150	171,642
Total all segments	**255,180**	**360,129**	**194,159**	**184,306**
Unallocated cash and security deposit	138,053	57,269	-	-
Consolidated	**393,233**	**417,398**	**194,159**	**184,306**

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

Other segment information - continuing operations

	Depreciation, impairment and amortisation of segment assets		Acquisition of segment assets	
	31 December 2023 $ '000	**31 December 2022 $ '000**	**31 December 2023 $ '000**	**31 December 2022 $ '000**
Space	3,936	51,895	3,890	5,896
Defence	7,157	8,998	2,043	3,858
Total all segments	11,093	60,893	5,933	9,754
Unallocated management	1,290	5,659	333	1,043
Consolidated	**12,383**	**66,552**	**6,266**	**10,797**

30. Segment Information - continuing operations (continued)

Information on geographical segments

31 December 2023

Geographical segments	Revenue from external customers $ '000	Segment assets* $ '000	Acquisition of segment assets $ '000
Australia/Asia	69,810	335,464	6,209
Middle East - United Arab Emirates	68,598	1,342	5
Middle East - other	710	-	-
North America	8,466	56,424	52
Europe	71,669	3	-
Total	**219,253**	**393,233**	**6,266**

31 December 2022

Geographical segments	Revenue from external customers $ '000	Segment assets* $ '000	Acquisition of segment assets $ '000
Australia/Asia	39,027	406,065	10,725
Middle East - United Arab Emirates	84,767	1,809	24
North America	4,342	9,520	48
Europe	9,776	4	-
Total	**137,912**	**417,398**	**10,797**

*Segment assets reflects the requirements of AASB 8.33 (b) and reflect only non-current assets other than financial instruments and deferred tax assets.

The revenue information above is based on the locations of the customers.

31. Parent entity disclosure

	2023 $ '000	2022 $ '000
Financial position		
Assets		
Current assets	1,015	13,531
Non-current assets	88,123	204,757
Total assets	**89,138**	**218,288**
Liabilities		
Current liabilities	36,281	30,068
Non-current liabilities	44,947	49,443
Total liabilities	**81,228**	**79,511**
Net assets	**7,910**	**138,777**
Equity		
Issued capital	432,248	432,248
Reserves	12,858	12,268
Accumulated (losses)	(437,196)	(305,739)
Total equity	**7,910**	**138,777**
Financial performance		
(Loss) for the year	(131,456)	(115,570)
Other comprehensive income	-	-
Total comprehensive income	**(131,456)**	**(115,570)**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Guarantee provided under the Deed of Cross Guarantee	177,389	172,834

Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly-owned subsidiaries. Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, EM Solutions Pty Limited entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

32. Contingent liabilities and commitments

(a) The Group maintains cash deposits with banks and financial institutions as security for various performance and rental bonds. The detail of such cash deposits is as per below:

	Note	2023 $ '000	2022 $ '000
Offset bond for a defence contract	(c)	15,356	10,741
Performance bond for a defence contracts – overseas customers	(d)	23,172	23,395
Rental bonds		1,097	1,331
Performance bonds for defence contracts – Australian customers	(e)	21,086	-
Performance bonds for space contracts	(f)	6,228	-
Deposit for credit card guarantee		117	121
Total		**67,056**	**35,588**

(b) Entities within the Group are involved in contractual disputes in the normal course of contracting operations. The Directors believe that the entities within the Group can settle any contractual disputes with customers and should any customers commence legal proceedings against the Company, the Directors believe that any actions can be successfully defended. As at the date of this report no material legal proceedings have been commenced against any entity within the Group.

(c) The Group executed an offset agreement in relation to an overseas defence contract for an amount of US$16,957,080 (A$24,791,053) secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia (EFA) under a Bond Facility Agreement and is secured by a cash security deposit of US$10,503,513 (A$15,356,013) and a fixed and floating charge over the assets of the Group.

Under the Offset Program guidelines, participants typically have several years in which to earn Offset Credits. As an alternative to generating Offset Credits through the Offset Program, in certain circumstances Offset Credits can be generated through participation in the Credit Purchase Program, which involves settling obligations by making cash payments. As part of the Offset Program, EOS is required to develop, agree and submit an approved business plan to the Offset Credit authority. On 30 August 2023, the government agency advised a deadline of 30 September 2023 for EOS to submit a revised business plan, which EOS delivered within the specified timeframe. The business plan remains under review by the Offset Credit authority and the Group continued to have advanced discussions with the Offset Credit authority towards finalising this approval. Subsequent to year end, a Memorandum of Understanding was executed between the Group and the proposed JV partner that is being considered by the Offset Credit authority.

As at the date of this report, EOS considers that it is in compliance with its obligations and expects to reach agreement on an approved business plan, and to ultimately generate offset credits by executing that business plan. EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee

(d) At 31 December 2023, the Group was not in breach of the EFA covenants applying at that date.

(e) The Group maintains a performance bond for US$33,249,177 (A$48,609,908) 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$15,849,843 (A$23,172,285) and a fixed and floating charge over the assets of the Group.

(f) The Group entered into agreements to provide performance bonds of $22,172,000 to a domestic customer in Australia in the defence segment. The guarantees were issued by funding providers and are secured by cash deposits totaling $21,086,000 as at 31 December 2023.

32. Contingent liabilities and commitments (continued)

(g) $6,000,000 of new performance bonds were issued to support an EM Solutions contract to deliver and install communication systems to the Royal Australian Navy. This guarantee is secured by a cash security deposit of $6,000,000.

(h) Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and was relieved from the requirement to prepare and lodge an audited financial report. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

33. Remuneration of auditors

	2023 $ '000	2022 $ '000
a. DELOITTE TOUCHE TOHMATSU AND RELATED NETWORK FIRMS*		
Audit or review of the financial reports:		
In relation to the current year	-	888
In relation to the 2022 audit paid in 2023	164	-
In relation to the 2021 audit paid in 2022	-	200
– Group	**164**	**1,088**
Other assurance services	19	218
Other services		
– Tax consulting services	178	71
	361	**1,377**
b. ERNST & YOUNG AND RELATED NETWORK FIRMS**		
Audit or review of the financial reports:		
In relation to the current year	530	-
– Group	**530**	**-**
Other assurance services	-	-
Other services	92	-
	622	-
c. OTHER AUDITOR AND THEIR RELATED NETWORK FIRMS		
Audit or review of the financial reports	14	17
Other services		
– Taxation services	8	9
	22	**26**

* Deloitte Touche Tohmatsu was the auditor of the Group for the year ended 2022.
** In May 2023, Ernst & Young was appointed the auditor of the Group.

34. Subsequent Events

Subsequent to year-end, EFA approval was received and the amendment to the finance facility agreement became effective. The $4.5m fee was paid to the lender.

Apart from the above, the Directors are not aware of any significant subsequent events since the end of the financial year and up to the date of this report.

35. Additional Company Information

Electro Optic Systems Holdings Limited is a listed public company in Australia, incorporated in Australia. The Company and its subsidiaries operate in Australia, North America, Middle East, Singapore, New Zealand and Germany.

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DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Electro Optic Systems Holdings Limited (the Company), I state that:

1. In the Directors' opinion:

(a) the financial statements and notes of the Company and its subsidiaries (collectively the Group) are in accordance with the *Corporations Act 2001*, including:

    i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and

    ii. giving a true and fair view of the Group's financial position at 31 December 2023 and of its performance for the financial year ended on; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) as at the date of this declaration, there are reasonable grounds to believe that the Company and the subsidiaries to which *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* applies, as detailed in Note 27 to the financial statements, will be able to meet any liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries.

2. This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2023.

Signed in accordance with a resolution of the Directors:

Garry Hounsell
Director and Chair of the Board of Directors

Dated at Canberra this 28th day of February 2024

Building a better
working world

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Independent Auditor's Report to the Members of Electro Optic Systems Holdings Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Electro Optic Systems Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including material accounting policy information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 (c) in the financial report, which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions, along with other matters disclosed in Note 1 (c) indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be a key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Revenue recognition

Why significant	How our audit addressed the key audit matter
The Group has seven significant agreements with customers that account for approximately 74% of the consolidated revenue. These agreements are complex, may span over several years (project life) and the accounting implications thereof are of significance. Estimating total forecasts costs to complete during project life is complex and requires judgement. Typical cost estimates include labour, materials and project overheads. Changes to these cost estimates could give rise to adjustments to the amount of revenue recognised. The revenue recognised under the output method may include multiple performance obligations, variations and claims, cancellations, penalties for late delivery and warranties. These are subject to a high level of judgement and estimation from management as disclosed in Note 2(e). Revenue recognition is a key audit matter as significant judgement is required to assess the timing of recognition determined by the Group. Revenue for the significant agreements is primarily recognised based on the following measures: ▸ The output method which measures the value delivered to the customer through the delivery of goods/services or achievement of contract milestones. ▸ The input method which uses costs incurred as a proportion of total forecasts costs as the measure of progress.	Our audit procedures included: ▸ Performing a walkthrough of the process for recording revenue recognised overtime for significant contracts and tested design effectiveness of key controls; ▸ Evaluating the Group's review and approval of revenue recognised and assessing judgements applied to significant contracts; ▸ Selecting a sample of contracts for testing using data analytic routines based on quantitative and qualitative factors, related to size and risk of the contracts entered into by the Group; ▸ For the sample of contracts selected, we: ○ Inquired with key project personnel to assess the project schedule, validated costs incurred to date, evaluated forecasted costs to complete and any major changes since the prior period; ○ Assessed relevant documentation to support contract milestones and deliverables, assessing whether revenue has been recognised in accordance with the contract and requirements of AASB 15 *Revenue from Contracts with Customers*; and ○ Evaluated the variations and claims recognised within revenue against the criteria for recognition in accordance with AASB 15 via inspection and assessment of communication between the Group and the customer and the basis for any variations and claims. ▸ Assessed the adequacy of the disclosures included in the Notes to the financial statements. This included disclosures related to judgements and estimates.

Debt Classification

Why significant	How our audit addressed the key audit matter
The classification of the Group's debt as either current or non-current on the consolidated statement of financial position is a key audit matter due to the quantum of debt drawn upon, its significance relative to net assets and the direct impact of debt classification on the representation of the company's liquidity and solvency position. Determining whether the debt is properly classified required evaluation of several significant factors, including the contractual terms of the borrowing agreements and any related amendments regarding the company's compliance with debt covenants at the reporting date, and its intent and capacity to refinance or repay the debt on a short-term basis.	Our audit procedures in relation to the debt classification included: ▶ Reviewing the terms of the Group's borrowing agreements and related amendments to confirm debt maturity dates, understand any covenants and potential default events; ▶ Assessing the company's compliance with those covenants during the financial year, at the financial year-end and subsequent; ▶ Evaluating any breaches of covenants arising throughout the financial year that might require the debt to be classified as current at the balance sheet date if the breach had not been remediated or waived. This included evaluating evidence from the Group's external legal counsel, with the assistance of our own internal legal specialists; ▶ Examining correspondence with lenders including subsequent events; ▶ We also assessed the adequacy of the company's disclosures in relation to the classification of its debt included in the Notes to the financial statements. This included evaluating whether the company's disclosures about liquidity risks, the terms of the borrowing agreements, and the nature of any breaches of covenants provide appropriate, clear, and comprehensive information.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2023 annual report other than the financial report and our auditor's report thereon. We obtained the directors' report and review of operations that are to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the remuneration report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Building a better working world

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 33 to 46 of the directors' report for the year ended 31 December 2023.

In our opinion, the Remuneration Report of Electro Optic Systems Holdings Limited for the year ended 31 December 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst + Young

Ernst & Young

Ben Tansley
Partner
Canberra
28 February 2024