ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ABN 95 092 708 364
18 Wormald Street
Symonston, ACT 2609, Australia
+61 2 6222 7900
www.eos-aus.com

28 February 2023

FY22 Appendix 4E and Preliminary Final Report

In accordance with ASX Listing Rule 4.3A, Electro Optic Systems Holdings Limited (ASX: EOS) provides the attached Appendix 4E/Preliminary Final Report for the year ended 31 December 2022.

Approved for release by the Board of Directors of Electro Optic Systems Holdings Limited

Further information:

Clive Cuthell
Chief Financial Officer

Preliminary Final Report of

Electro Optic Systems Holdings Limited

for the Financial Year Ended 31 December 2022

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 2022
Previous Corresponding Period:	Financial Year ended 31 December 2021

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %		Amount ($'000s)
Revenue from ordinary activities	**Down**	**35.0%**	**To**	**137,912**
(Loss) from ordinary activities after tax attributable to members		**N/A**		**(114,540)**
Attributable to Continuing Operations		N/A		(52,586)
Attributable to Discontinued Operations		N/A		(61,954)
Net (Loss) attributable to members		**N/A**		**(114,540)**

Dividends (Distributions)

	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

Net tangible assets at 31 December 2022*	$204,947,000
Number of ordinary shares outstanding at 31 December 2022	171,236,006
NTA per ordinary share at 31 December 2022	119.7 cents per share
NTA per ordinary share at 31 December 2021	193.9 cents per share

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

Brief Explanation of Revenue, Net Profit and Dividends (Distributions)

See the Review of Operations on pages 3 to 12.

No dividends have been declared or paid.

Review of Operations

1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2022

For the consolidated entity ("EOS") or ("Company"), Revenue from Continuing Operations activities was $137.9m, representing a $74.4m or 35% decrease on the prior comparative period (31 December 2021: $212.3m)

The Loss After Tax, from Continuing Operations, was $53.6m (including charges for impairment provisions), compared to a profit of $6.7m in the prior comparative period.

Underlying EBITDA from Continuing Operations (prior to charges for impairment provisions and foreign exchange gains) was a loss of $42.9m, compared to an Underlying EBITDA profit from Continuing Operations of $22.8m in the prior comparative period.

The activities of a subsidiary, SpaceLink Corporation ("SpaceLink"), were discontinued during the period and a Loss After Tax from Discontinued Operations of $62.0m was recorded. This included a loss for the period of $34.5m and impairment charges of $47.2m, as reported at 30 June 2022. This was partially offset by a gain of $19.7m on the effective disposal of SpaceLink.

Including the results of SpaceLink's Discontinued Operations, EOS reported an operating Loss After Tax of $115.6m for the year ended 31 December 2022 (31 December 2021: operating Loss After Tax of $13.8m.)

The consolidated entity reported Net Cash Used by Operations for the year totalling $51.6m (31 December 2021: $0.2m Net Cash Generated by Operations). This included $15.3m relating to Discontinued Operations in 2022. In addition, the consolidated entity reported $28.3m of Net Cash Outflows on Investing Activities (31 December 2021: $37.7m). This included $11.3m relating to Discontinued Operations in 2022.

At 31 December 2022, the consolidated entity held cash totalling $21.7m (31 December 2021: $59.3m).

Key elements of financial performance are summarised below.

Revenue from Continuing Operations

For the year ended 31 December 2022 the Consolidated Entity recorded Revenue from Continuing Operations of $137.9m (31 December 2021: $212.3m), representing a decrease of $74.4m or 35%.

The decrease in Revenue was driven by lower Defence Systems segment Revenue, down from $184.5m in 2021 to $105.9m in 2022, a decrease of $78.6m. More detailed information is provided in Section 5 below.

Revenue in the Space segment increased on prior year to $32.0m (2021: $27.8m). This included growth in the EM Solutions business. More detailed information is provided in Section 6 below.

At 31 December 2022, the Group had a backlog of contracted future work of over $300m. This represents work secured under customer contracts, mainly in Defence Systems and EM Solutions. This work is currently expected to be undertaken principally in 2023 and 2024.

Review of Operations

Expenses from Continuing Operations

Expenses in Continuing Operations increased from $207.1m in the prior period to $215.3m in this period. This increase of $8.2m was driven by an increase in administration expenses of $7.5m (including advisory costs associated with addressing funding and related matters), increased finance costs of $7.7m, an impairment charge of $7.3m, and increases in other items totalling $15.4m, and a reduction in raw material costs by $29.7m.

During the third and fourth quarters of the year a Restructuring Program was commenced to reduce costs, improve efficiency and align resources more closely with activity levels at the end of the year. Total annual savings of $25.0m are expected to be achieved. As part of this, over 100 roles were made redundant during the year. Costs of $3.5m were incurred during the year in implementing this Restructuring Program.

Underlying EBITDA from Continuing Operations

Underlying EBITDA from Continuing Operations (prior to charges for impairment provisions and foreign exchange gains) was a loss of $42.9m, compared to an EBITDA profit from Continuing Operations of $22.8m in the prior comparative period.

Impairments

The Group recognised an impairment charge of $54.5m during the period. This included a charge of $7.3m relating to Continuing Operations and a charge of $47.2m relating to Discontinued Operations (recognised in the half year report to 30 June 2022).

Foreign Exchange

The results included a foreign exchange gain in the year of $12.7m (2021: gain of $9.8m), which predominantly arose on the translation of US$ assets in into Australian Dollars.

Discontinued Operations

During the year, the Company sought strategic funding partners to support continued investment in SpaceLink. The Company did not succeed in securing investment, and as a result the Company ceased investment in SpaceLink during the year. Accordingly, on 16 November 2022, EOS announced that SpaceLink had ceased normal operations and that an orderly wind-up process had been initiated in the United States, by way of an Assignment for the Benefit of Creditors (“ABC”).

Under the ABC process, at 31 December 2022, SpaceLink was controlled by an Assignee, and the Assignee acts in the interests of creditors. As a result of the decision to cease investment, and the ABC process, EOS expects that future EOS cash outflows related to SpaceLink will be approximately nil.

Review of Operations

SpaceLink has been treated as a Discontinued Operation. The results of Discontinued Operations include:

- Operating expenses of $34.5m arising during the year
- An impairment provision of $47.2m
- A gain arising on the Assignment and effective disposal of SpaceLink, of $19.7m, which arose when SpaceLink, with net liabilities, was put into the ABC process noted above.

Cashflow Used in Operating Activities

During the year, the Group had cash used in operating activities of $51.6m. Of this, $15.3m was represented by cash used by the Discontinued Operations of SpaceLink.

Net cash used in operating activities was impacted by a reduction in Receipts from Customers from $233.9m in the prior year to $145.9m this year. The reduction was caused by projects ending and lower than expected receipts on continuing projects. In particular, due to delays in achieving contract milestones, receipts from a significant overseas customer in the Middle East were lower than expected. Payments to Suppliers and Employees of $188.6m were down from $225.2m in the prior year.

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 2022, the Group had a Contract Asset totalling $164.4m, being revenue earned but not invoiced, mainly on a project with a significant overseas customer in the Middle East. The Contract Asset increased by $36.1m during the year, due to the fact more revenue was recognised during the year than was invoiced to the customer. This was because of delays in achieving contract milestones, mainly because of the impact of COVID-19 and supply chain challenges on the customer.

The Group expects to realise cash from the Contract Asset following the invoicing and collection of these amounts in future periods, in accordance with the legal arrangements specified in customer contracts.

The realisation of this asset is one of the most critical tasks for the Group. Work on this includes seeking contract amendments and other changes with customers to bring forward Cash Receipts where possible and optimising the achievement of relevant milestones.

During February 2023, a contract amendment was agreed with a significant overseas customer in the Middle East, and this is expected to help improve cash realisations in 2023 and 2024.

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 increased from $7.7m at 31 December 2021 to $22.2m at 31 December 2022.

Cashflow Used in Investing Activities

The Group used $28.3m of net cash in investing activities during the year, including $11.4m net cash used in the Discontinued Operations of SpaceLink. In Continuing Operations, the main investing cash payments were the $11.2m paid as Security Deposits for bonds, mainly required under contracts with overseas customers, and capital expenditure of $7.9m. This was partially offset by $2.6m received on the repayment of a loan from an associate entity.

Funding and Cash Balances

As a result of the funds used in Operating and Investing Cashflows, the Group was required to seek additional funding during the year.

The Group raised $14.6m in cash proceeds from the issuance of new equity share capital during the year.

The Group repaid $35.8m of Group borrowings during the year and raised $75.7m in proceeds from new borrowings. During the year, the Group established the following borrowing facilities:

- Working Capital Facility, with $20.0m principal drawn, maturing on 6 September 2023
- Working Capital Facility, with $15.0m principal drawn, maturing on 11 April 2024
- Term Loan Facility, with $35.0m principal drawn, maturing on 11 October 2025.

The total borrowings under these facilities, including capitalised initial fees and interest were $83.6m at 31 December 2022. At 31 December 2022, these facilities were fully drawn.

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

The cash balance fell from $59.3m at the start of the year to $21.7m at the end of the year.

The Group continues to closely monitor the Cashflow of the Group and the outlook for the business to ensure that adequate funding is in place.

The Group will continue to regularly review and, if necessary, seek to amend the EOS capital structure to allow operations to continue.

2. CHANGES IN DIRECTORS AND MANAGEMENT

During the year, Dr Ben Greene resigned as Chief Executive Officer of the Company, and on 1 August 2022, Dr Andreas Schwer was appointed as Chief Executive Officer of the Company.

On 24 November 2022, Mr Peter Leahy AC stepped down as an Independent Non-Executive Director and Chair of the Board of Directors of the Company, and Mr Garry Hounsell was appointed to both roles. Mr Robert Kaye SC was appointed as an Independent Non-Executive Director of the Company on 13 September 2022. On 31 January 2023, after the end of the year, Ms Deena Shiff stepped down from her role as an Independent Non-Executive Director of the Company. Ms Leanne Ralph was appointed Company Secretary on 25 August 2022.

In the management team, during the year, Mr Clive Cuthell was appointed as Chief Financial Officer, Mr Matt Jones was appointed Acting Executive Vice President of Defence Systems, Dr James Bennett was appointed Acting Executive Vice President of Space Systems, and Dr Ben Greene became Head of Innovation. As part of the work to reduce the size of the Executive Management Team and reduce costs, the roles of Deputy Chief Executive Officer, Chief Operating Officer and Chief Technology Officer ended during the year.

Review of Operations

3. STRATEGIC REVIEW AND IMPLEMENTATION

During the third and fourth quarters of the year the Company commenced a Strategic Review under the leadership of new Chief Executive Officer, Dr Andreas Schwer. As part of this:

- A restructuring program was implemented, aimed at achieving annual cost savings of $25m. As part of this focus on cost reduction and improving profitability, over 100 roles were made redundant during the year.
- The Group ceased investment in SpaceLink and established an ABC process. As a result, EOS expects that future cash outflows related to SpaceLink will be approximately nil.

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

- Strengthened focus on realising cash from the Group's Contract Asset. This includes seeking contract amendments with customers where possible, and optimising the achievement of relevant milestones
- Careful management of costs, in line with the revenue and activity levels of the business
- Initiatives to secure new customer contracts, including improving sales and marketing effectiveness
- Rationing and prioritising capital expenditure, including R&D spending, towards core defence and space businesses, using commercial investment criteria.

4. STRATEGIC GROWTH PARTNERSHIPS AND/OR CAPITAL TRANSACTIONS

EOS has received approaches from several parties in relation to potential strategic growth partnerships and/or capital transactions.

During the second half of 2022, a confidential process was commenced to develop and assess potential strategic partners, having particular regard to their ability to support diversification into new geographic markets and/or to complement our existing products in existing markets. This is expected to continue during the first half of 2023. There is no certainty that any particular outcome or transaction will result from the process.

5. DETAILED BUSINESSS UNIT UPDATE - EOS DEFENCE SYSTEMS

Defence Systems had a challenging year in 2022, with Revenue falling from $184.5m in 2021 to $105.9m in 2022, a decrease of $78.6m. The decrease was caused by the impact of supply chain constraints on continuing projects, where constraints impacted customers, third party suppliers to customers, and the Defence Systems business. In addition, new projects were secured and initiated, but the impact of these was less than the impact of projects that were completed.

The main activity during the year was the manufacture and delivery of Remote Weapon Systems ("RWS") for a large customer in the Middle East. The gross margin ratio in 2022 was lower than 2021 due to changes in project mix and other items, but consistent with levels achieved in 2020.

Review of Operations

Market Overview and Sales Activity – Defence Systems

During 2021 and 2022, some contract awards were delayed as governments deferred program awards and announcements. This was due to a range of political, economic and global geopolitical factors, including the impact of Ukraine and ongoing global supply chain issues. This meant that some opportunities that were previously expected to be signed, and commence delivering revenue, in 2022 have been delayed by customers. These opportunities are now expected to deliver order intake and revenue in 2023 and beyond.

The global market outlook strengthened as the 2022 year progressed, as many nations announced planned increases in defence spending. This may lead to increased opportunities in future.

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

In Australia, the Commonwealth of Australia has not yet published the outcome of the Defence Strategic Review. This review is expected to clarify the Australian Defence Force's ("ADF") future plans on key projects, including some that may benefit EOS. The outcome of this review is currently expected to be published before 30 June 2023. As part of this review, the ADF's plans for some projects that may benefit EOS are now expected to be announced later than previously expected.

Regarding Ukraine, EOS continues to be in active discussions and contract negotiations on the potential provision of a significant number of RWS and related components and spares. This includes opportunities for direct supply to Ukraine, and to other countries providing support to Ukraine. These opportunities have the potential to materially improve future Revenue and Cashflow. There is no certainty that any particular outcome or transaction will result from these discussions and negotiations.

Product Development – Defence Systems

Defence Systems continued work during the year to widen its RWS product range from its longstanding successful R400 RWS product:

- 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 fourteen R150 gimbals was received in January 2023, as part of the L3Harris Vampire program, under which the US is providing support to Ukraine. The order is for less than $10m and is expected to be completed in 2023.
- Following supply in previous years, a follow-on order was secured during the fourth quarter for fourteen new heavyweight R600 RWS, plus spares, for a customer in Southeast Asia. The R600 RWS order is being manufactured in EOS US facilities in Huntsville, Alabama. The total order is for up to $15m and is expected to be completed in 2023.
- Defence Systems also supported the integration and subsequent deployment of four R400 RWS equipped uncrewed ground vehicles (UGV) for a NATO customer. This deployment in Lithuania represents the first NATO operational deployment for a UGV equipped with lethality systems.
- Defence Systems continued to develop the new R800 RWS product with evaluation by potential customers ongoing in North America.

Defence Systems worked closely with Space Systems to further develop and demonstrate Directed Energy products. This included the 'Titanis' Counter Drone Defence System, which includes both the established RWS product, as well as new Directed Energy components. The market for these products continues to develop positively. During the year, demonstrations were held with potential customers and further discussions continue. Similar to the commercialisation program for previous EOS products, it is expected to take some time for Directed Energy products to achieve significant commercial scale.

Further product development work is intended to continue on a range of opportunities. The business is focussed on obtaining third party funding for product development work.

Supply Chain, Operations and Facilities – Defence Systems

Delivery against existing contracts in 2022 continued to be impacted by supply chain constraints. The normalisation of global supply chains has taken longer to occur than previously expected and supply chain challenges continue in many markets, impacting the timing of EOS revenue recognition. Whilst in some areas supply chain challenges have started to show signs of easing, in other areas the impact of previous challenges continues to be felt, and new challenges have emerged.

In the US, the EOS facility in Huntsville, Alabama, secured a facility clearance from the US Defence Counterintelligence Security Agency. This allows the facility to compete for classified US contracts and to work with other cleared defence contractors on classified work for the US military.

Organisational Structure – Defence Systems

During the year, Mr Grant Sanderson stepped down as CEO Defence Systems, and Mr Matt Jones was appointed Acting Executive Vice President of Defence Systems.

6. DETAILED BUSINESSS UNIT UPDATE – EOS SPACE SYSTEMS

Revenue in the Space Systems segment increased on prior year (2022: $32.0m, 2021: $27.8.m). 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.

Review of Operations

During 2022, Space Technologies continued to grow and commercialise its technology. This included:

- Delivering satellite laser ranging services to longstanding customers.
- The award of two contracts from the United States National Oceanic and Atmospheric Administration (NOAA) government agency's Office of Space Commerce. These new contract values are for less than $1m.
- The design and build of prototype Directed Energy gimbals for a large international customer.
- Developing technology demonstrations for space control systems under a research program funded by customers.
- Continuing to develop and demonstrate Directed Energy products and seek funding for further development activities.
- Completing the acquisition of the assets and business of KiwiStar Optics. This business produces precision optics for astronomy purposes. The total consideration for the acquisition was $318,000.

Space Technologies continues to develop sales opportunities on potentially significant future projects for Australian and overseas customers. Typically, it can take up to, and more than, twelve months 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 2022, EM Solutions continued to focus on delivering growth:

- EM Solutions continued to deliver satellite communication systems to naval customers in Australia and Europe, working closely with customers to deliver leading products and continue to deliver profitable growth.
- In addition to receiving a number of smaller orders, EM Solutions signed a $26m three-year sustainment contract with the Australian Commonwealth's Capability Acquisition and Sustainment Group (CASG) for the Royal Australian Navy's existing fleet of Cobra Maritime SATCOM terminals.

EM Solutions continues to work closely with the ADF to support the Royal Australian Navy. This includes developing proposals to support the forthcoming SEA1442 Phase 5 program, under which there is an opportunity for EM Solutions to assist in the modernisation of maritime communications for the Royal Australian Navy.

Organisational Structure – Space Systems

During the year, Mr Glen Tindall finished working with the Company and Dr James Bennett was appointed Acting Executive Vice President of Space Systems.

7. SUBSEQUENT EVENTS

There were no significant subsequent events arising after 31 December 2022 and up to the date of this report.

8. OUTLOOK

In order to improve the outlook, the Company made changes detailed above, including:

- Appointing a new CEO and management team.
- Implementing a restructuring program aimed at achieving annual cost savings of $25m.
- Ceasing investment in SpaceLink to reduce future cash outflows to approximately nil.

In addition, work is continuing on several initiatives (outlined in sections 3 to 6 above) to improve cashflow, profitability, funding, and returns.

Market and Customer Outlook

During 2022, the market outlook for EOS products continued to develop positively. This was partly due to the conflict in Ukraine and the impact on customer demand in NATO countries and other important markets.

Some contract awards that were expected in 2022 were delayed as governments deferred program awards and announcements. This was due to a range of political, economic and global geopolitical factors, including the impact of Ukraine and ongoing global supply chain issues.

EOS continues to work on potential sales opportunities, including those that were previously expected to come to fruition during 2022.

Typically, EOS operates in an industry where it can take an extended period of time (including up to, and beyond, twelve months) for opportunities to be converted into signed sales contracts.

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 with 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.

As noted above, at 31 December 2022, the Group had a Contract Asset of $164.4m, representing work done but not yet invoiced to customers. Management remains focussed on the progressive realisation of this significant asset, in the form of future Cash Receipts from Customers. This is an important aspect of improving the Group's financial position.

Review of Operations

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.

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

Dr Andreas Schwer

Group CEO
28 February 2023

Reconciliation of Loss for the year to Underlying EBITDA

Continuing Operations Year ended 31 December $m	2022	2021
Profit (Loss) for the period	**(53.6)**	**6.7**
Income tax expense (benefit)	(9.3)	9.2
Profit (Loss) before tax	**(62.9)**	**15.9**
Finance costs	14.3	6.6
Impairment of assets	7.3	-
Foreign exchange (gains)	(12.7)	(9.8)
Underlying EBIT (before impairment and foreign exchange gains)	**(54.0)**	**12.7**
Depreciation & Amortisation	11.1	10.1
Underlying EBITDA (before impairment and foreign exchange gains)	**(42.9)**	**22.8**

Consolidated statement of profit or loss and other comprehensive income for the Financial Year ended 31 December 2022

Continuing Operations	**Note**	**31 December 2022 $'000**	**31 December 2021 $'000**
Revenue	3(a)	137,912	212,331
Other income	3(b)	1,860	975
Foreign exchange gain	3(c)	12,666	9,797
Raw materials and consumables used		(87,455)	(117,202)
Changes in inventory work in progress and finished goods		(3,942)	5,663
Employee benefits expense		(63,005)	(59,092)
Occupancy costs		(1,891)	(1,708)
Administration expenses		(23,262)	(15,795)
Other expenses		(3,142)	(2,343)
Finance cost	3(c)	(14,252)	(6,601)
Depreciation of property plant and equipment	3(c)	(4,324)	(3,892)
Depreciation of right of use assets	3(c)	(5,138)	(4,562)
Amortisation of intangible assets	3(c)	(1,597)	(1,597)
Impairment of assets	6	(7,315)	-
(Loss)/Profit before tax from Continuing Operations	**3**	**(62,885)**	**15,974**
Income tax benefit/(expense)		9,278	(9,231)
(Loss)/Profit for the Year from Continuing Operations		**(53,607)**	**6,743**
Discontinued Operations			
Loss After Tax for the Year from Discontinued Operations	4	(61,954)	(20,586)
Loss for the Year		**(115,561)**	**(13,843)**
Attributable to:			
Owners of the Company		(114,540)	(13,006)
Non-controlling interests		(1,021)	(837)
		(115,561)	**(13,843)**

Notes to the financial statements are included on pages 18 to 41.

Consolidated statement of profit or loss and other comprehensive income for the Financial Year ended 31 December 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
Loss for the Year		**(115,561)**	**(13,843)**
Other Comprehensive Income			
Items that may be reclassified in future to profit and loss			
Exchange difference on translation of foreign operations		2,100	1,344
Total Comprehensive Loss for the Year		**(113,461)**	**(12,499)**
Attributable to:			
Owners of the Company		(112,440)	(11,662)
Non-controlling interests		(1,021)	(837)
		(113,461)	**(12,499)**

Earnings (Loss)/Profit per share		**cents per share**	**cents per share**
Basic			
From Continuing Operations	5	(35.8 cents)	5.4 cents
From Discontinued Operations	5	(42.2 cents)	(14.8 cents)
Total		**(78.0 cents)**	**(9.4 cents)**
Diluted			
From Continuing Operations	5	(35.8 cents)	5.4 cents
From Discontinued Operations	5	(42.2 cents)	(14.8 cents)
Total		**(78.0 cents)**	**(9.4 cents)**

Notes to the financial statements are included on pages 18 to 41.

Consolidated statement of financial position as at 31 December 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
CURRENT ASSETS			
Cash and cash equivalents		21,681	59,261
Trade and other receivables		7,419	23,533
Current tax receivable		12,245	196
Contract asset		127,899	106,844
Inventories		74,841	74,579
Prepayments		17,591	20,399
TOTAL CURRENT ASSETS		**261,676**	**284,812**
NON-CURRENT ASSETS			
Contract asset		36,520	21,453
Deferred tax asset		3,326	4,506
Security deposit		35,588	28,141
Loan to associate		-	2,513
Right of use assets		18,252	28,601
Goodwill		12,373	14,878
Intangible assets		12,446	17,109
Property, plant and equipment		37,217	56,078
TOTAL NON-CURRENT ASSETS		**155,722**	**173,279**
TOTAL ASSETS		**417,398**	**458,091**
CURRENT LIABILITIES			
Trade and other payables		43,179	35,371
Contract liabilities		22,168	7,666
Secured borrowings	7	21,391	34,448
Unsecured borrowings	7	1,904	-
Lease liabilities		3,939	5,160
Provisions		12,212	14,178
TOTAL CURRENT LIABILITIES		**104,793**	**96,823**
NON-CURRENT LIABILITIES			
Secured borrowings	7	49,443	-
Lease liabilities		20,507	24,864
Provisions		9,563	7,249
TOTAL NON-CURRENT LIABILITIES		**79,513**	**32,113**
TOTAL LIABILITIES		**184,306**	**128,936**
NET ASSETS		**233,092**	**329,155**
EQUITY			
Issued capital	8	432,248	413,728
Reserves	9	12,545	11,567
Accumulated losses	10	(208,499)	(93,959)
Equity attributable to owners of the Company		236,294	331,336
Non-controlling interests		(3,202)	(2,181)
TOTAL EQUITY		**233,092**	**329,155**

Notes to the financial statements are included on pages 18 to 41.

Consolidated statement of changes in equity for the Financial Year ended 31 December 2022

2022	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
Balance 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 $584,000)	-	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 $0.51 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)
Balance at 31 December 2022	**(208,499)**	**432,248**	**277**	**12,268**	**236,294**	**(3,202)**	**233,092**
2021							
Balance at 1 January 2021	(80,953)	413,479	(3,167)	11,580	340,939	(1,344)	339,595
Loss for the year	(13,006)	-	-	-	(13,006)	(837)	(13,843)
Exchange differences arising on translation of foreign operations	-	-	1,344	-	1,344	-	1,344
Total comprehensive profit for the year	**(13,006)**	**-**	**1,344**	**-**	**(11,662)**	**(837)**	**(12,499)**
Repayment of loans in respect of Loan Funded Share Plan 83,125 shares at $2.99 per share	-	249	-	-	249	-	249
Recognition of share-based payments expense	-	-	-	1,810	1,810	-	1,810
Balance at 31 December 2021	**(93,959)**	**413,728**	**(1,823)**	**13,390**	**331,336**	**(2,181)**	**329,155**

Notes to the financial statements are included on pages 18 to 41.

Consolidated statement of Cashflows for the Financial Year ended 31 December 2022

	31 December 2022 $'000	31 December 2021 $'000
Cashflows from operating activities		
Receipts from Customers	145,889	233,934
Payments to Suppliers and Employees	(188,637)	(225,251)
Income tax paid	(1,014)	(2,627)
Interest and bill discounts received	230	30
Interest and other costs of finance paid	(8,040)	(5,865)
Net cash (outflows)/inflows from operating activities	**(51,572)**	**221**
Cashflows from investing activities		
Payment for property, plant and equipment	(19,253)	(29,007)
Security deposit for bonds	(11,212)	(8,701)
Repayment of loan by associated entity	2,576	-
Payment to acquire a business	(421)	-
Net cash outflows from investing activities	**(28,310)**	**(37,708)**
Cashflows from financing activities		
Proceeds from issue of new shares	14,620	-
Repayment of loans in respect of loan funded share plan shares	-	249
Repayment of lease liabilities	(5,045)	(3,852)
Proceeds from borrowings	75,687	35,000
Repayment of borrowings	(35,807)	-
Transaction costs related to borrowings	(4,104)	(812)
Net cash inflows from financing activities	**45,351**	**30,585**
Net decrease in cash and cash equivalents	**(34,531)**	**(6,902)**
Cash and cash equivalents at beginning of the year	59,261	65,933
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	(3,049)	230
Cash and cash equivalents at the end of the year	**21,681**	**59,261**

Notes to the financial statements are included on pages 18 to 41.

1 Basis of Preparation

The preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A and disclosure requirements of ASX Appendix 4E.

The accounting policies and methods of computation adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the consolidated entity's annual financial report for the financial year ended 31 December 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

All amounts are stated in Australian dollars (A$) and rounded to the nearest thousand dollars unless otherwise stated.

(a) Financial statements 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.

The consolidated entity incurred a Loss Before Tax from Continuing Operations of $62,885,000 (December 2021: Profit of $15,974,000).

In addition, the consolidated entity had a net cash outflow from operating activities of $51,572,000 (December 2021: net cash received of $221,000) and a net decrease in cash and cash equivalents held of $37,580,000 (December 2021: $6,672,000).

During the second half of the year the Company took steps to:

- reduce the ongoing level of cash outflows in relation to SpaceLink;
- reduce the operating cost base by reducing headcount; and
- focus on improving the core business, including cash collections from customers.

On 6 September and 12 October 2022, the Company entered into binding agreements with a new financier for new borrowing facilities. These facilities are detailed in Note 7 Borrowings. As at the date of this report, the facilities were fully drawn.

Under the borrowing facilities, repayment of the expected balances (including capitalised fees and interest) are required as follows:

- $26.9m on 6 September 2023
- $20.5m on 11 April 2024
- $52.1m on 11 October 2025

Under these new borrowing arrangements, the Company is required to comply with certain Borrowing Covenants. If the covenants are not complied with then the lender has the right to seek immediate repayment. As part of the covenant requirements, the Company was obliged to provide the lender in January 2023 with Cashflow Forecasts for the six months to 31 July 2023. The Company complied with this obligation. Covenant compliance will be measured each month against these forecasts, using a rolling three-month period. An updated Cashflow Forecast is required to be provided to the lender by 31 July 2023 for the period to 31 December 2023. In the event of a breach of a covenant, the Company has a limited period in which to take action to resolve the breach and/or negotiate with lenders. If the breach is not resolved, the lender can unilaterally amend the borrowing agreement and demand immediate repayment of outstanding amounts.

The consolidated entity has prepared a Cashflow Forecast that supports the ability of the consolidated entity 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 consolidated entity, the need to convert the Contract Asset into cash, the ongoing loan repayment requirements and the potential need to obtain further funding.

Based upon the information available at the date of this report, including current estimates of contract wins and cash inflows, the Company forecasts it will generate sufficient net cashflows to fund the required repayment of borrowings of $47.4m in September 2023 and April 2024. In the event that forecast contract wins and forecast cash inflows do not occur, the Company will seek to secure a covenant waiver, and/or secure a rollover/refinancing of the borrowings, and/or an equity injection to ensure the repayment obligation is met.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they become due and payable is dependent upon:

- The receipt of significant cash collections from customers as a result of:
  a) The ratification of the contract variations as required and the continued realisation of the Contract Asset;
  b) Key military and government customers making timely payments for the goods supplied in accordance with contractual terms, particularly including significant forecast Cash Receipts in March, April and May 2023;
- The continued adherence to borrowing covenants by the consolidated entity, which is dependent on significant forecast cash receipts in March, April and May 2023, and the forbearance of lenders regarding any covenant breaches should any arise,
- The continued ability of the consolidated entity to deliver contracts on time, to the required specifications and within budgeted costs,
- The continued support of lenders and other finance providers in accepting Cashflow Forecasts in July 2023, as required under the borrowing agreements,
- To the extent required to meet the repayment obligations under borrowing arrangements (Note 7), the successful completion of further debt or equity raisings,
- The continued forbearance of creditors in respect of amounts which may be beyond normal payment terms, and
- Conversion of key opportunities within the Defence and Space sector pipelines.

The directors note that whilst the consolidated entity 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 consolidated entity should this be required.

If the consolidated entity is 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 consolidated entity, and the ability to secure debt finance or raise capital should that be required), then material uncertainty exists that may cast significant doubt as to the ability of the consolidated entity 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 consolidated entity not continue as a going concern.

(b) New Accounting Standards

The consolidated entity 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 do not materially affect the consolidated entity'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 consolidated entity has not applied the following new and revised Australian Accounting Standards, Interpretations and Amendments that have been issued but are not yet effective:

New and revised AASB Standards in issue but not yet in effect

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, and • AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023	31 December 2023
• 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	31 December 2023
• 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	31 December 2023
• 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information	1 January 2023	31 December 2023
• 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2023	31 December 2023
• 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards	1 January 2023	31 December 2023
• 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments	1 January 2023	31 December 2023
• 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
• AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128,	1 January 2025	31 December 2025
• AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections, and	1 January 2025	31 December 2025
• AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2025	31 December 2025

(c) Critical accounting judgements

Management makes estimates and assumptions concerning the future. The resulting accounting estimates may not, by definition, equal the related actual results. Areas of estimates and judgement that have the most significant effect on the amounts recognised in the financial statements are disclosed in Note 1(x) of the Consolidated Financial Statements for the year ended 31 December 2021, except for those noted and updated below.

Impact of COVID-19 and related supply chain challenges

During the period since the outbreak of the COVID-19 pandemic, the consolidated entity has been affected in multiple ways. This includes increasing supply chain costs, product delivery delays, delays in contract negotiations and execution, reduced access to customers and reduced production.

The normalisation of global supply chains has taken longer to occur than previously expected and supply chain challenges continue in many markets, impacting the timing of EOS revenue recognition. Whilst in some areas supply chain challenges have started to show signs of easing, in other areas the impact of previous challenges continues to be felt, and new challenges have emerged.

While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement by the directors in preparing the financial report in areas such as revenue recognition, the review of the expected credit losses on receivables and the collectability of Contract Assets, as well as the impairment assessment on goodwill and intangibles.

For EOS' largest customer contract in the Middle East, timing delays arose during the year. These were mainly due to supply chain issues impacting both the customer and EOS. This means that some revenue that was previously expected to be recognised during 2022 has been delayed until later periods.

The directors have reviewed the collectability of the total Contract Asset as at 31 December 2022 of $164,419,000, including both current and non-current amounts. The directors have concluded that no material provisions or adjustments to revenue should be recognised on the basis of cash received to date and the creditworthiness of the counterparty and the status of contract amendment negotiations. Furthermore, the directors are of the view that the estimates used in preparing this financial report are reasonable.

Estimates and outcomes that have been applied in the measurement of the consolidated entity's Contract Asset may change in the future and any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both that period and future periods.

Impairment of assets

EOS assesses each cash-generating unit (CGU) and individual asset level, where possible, at period 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. These assessments require the use of estimates and assumptions such as our pipeline of sales opportunities, discount rates applied to estimated free Cashflows, and long-term growth rates applied in estimating the future value of our CGUs.

Impairment of Discontinued Operations

As reported in its 30 June 2022 half year report, as the result of a significant deterioration in the risk appetite in debt and equity markets, and delays in obtaining funding required for SpaceLink, the consolidated entity reviewed its plans in relation to SpaceLink.

Also during the half year ended 30 June 2022, management identified impairment indicators relating to individual assets of SpaceLink, and an impairment expense of $47,181,000 was recognised at that time in the statement of profit or loss and other comprehensive income.

On 15 November 2022, EOS assigned SpaceLink to an assignee under an ABC process in the United States, and accordingly the activities relating to SpaceLink have now been classified as a discontinued operation. More information is included in Note 4.

Impairment of Continuing Operations

For the CGU impairment assessment, management performed an assessment of the recoverable amount of its Defence CGU as at 30 June 2022. This assessment resulted in impairments in relation to all of the Goodwill allocated to the Defence CGU of $2,505,000 and an impairment in relation to a Defence CGU property right of use asset of $1,284,000. These were reported in the 30 June 2022 half year report.

In addition, in relation to a property right of use asset at the Canberra Head Office, an impairment expense of $3,526,000 was recognised during the year ended 31 December 2022.

As part of the preparation of its 31 December 2022 annual report, management noted that the carrying amount of the consolidated entity's net assets continued to be more than its market capitalisation as at 31 December 2022, and that performance for the year continued to be below budget. These are specific indicators 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 2022. No further impairments, or reversals of impairments, were recognised as a result of the consolidated entity's 31 December 2022 assessment.

Consequently, the Loss After Tax for the year from Continuing Operations included a total impairment expense of $7,315,000. See note 3(c) and 6 below for detailed information.

2. Segment Information – Continuing Operations

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance.

Change in segments

EOS changed the structure of its internal organisation and reporting lines in a manner that caused the composition of its reportable segments to change. EOS identifies its operating segments based on internal reports reviewed and used by EOS' chief operating decision maker (the CEO) 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, the former Communications Systems and Space Systems segments were merged to form an enlarged Space Systems segment under unified management.

As a result, the consolidated entity's reportable segments are now Defence Systems and Space Systems.

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.

Space Systems

Space Systems has a range of ground products available to support the Australian and international space markets. These 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 EOS laser technology has opened aligned markets in space optical communications and various high power laser applications.

Geographic activity

The consolidated entity 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.

Notes to the Financial Statements
for the Financial Year ended 31 December 2022

Results for Reportable Segments – Continuing Operations

Continuing Operations	Revenue 2022 $'000	Revenue 2021 $'000	Segment results 2022 $'000	Segment results 2021 $'000
Defence	105,951	184,516	(40,399)	24,738
Space	31,961	27,815	(7,039)	(4,488)
Total of all segments	**137,912**	**212,331**	**(47,438)**	**20,250**
Unallocated			(15,447)	(4,276)
Consolidated Loss before tax			**(62,885)**	**15,974**
Income tax benefit/(expense)			9,278	(9,231)
Consolidated (loss)/profit for the year			**(53,607)**	**6,743**

Prior year comparatives have been restated to reflect the change in reportable segments.

The Revenue reported above represents revenue from external customers. The consolidated entity had two customers that each provided in excess of 10% of consolidated revenue. The customers are within both Defence and Space segments. One customer represented revenue of $78,286,000 and the other represented $19,980,000 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.

The SpaceLink business has been discontinued during the year and is presented under Discontinued Operations (see note 4).

Assets of Reportable Segments

The following is an analysis of the Group's assets by reportable operating segment:

Assets for Reporting Operating Segment	2022 $'000	2021 $'000
Defence	320,271	304,455
Space	39,858	66,234
Total segment assets	**360,129**	**370,689**
Unallocated cash and security deposit	57,269	87,402
Total assets	**417,398**	**458,091**

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

3. (Loss)/Profit before tax - Continuing Operations

The (Loss) / Profit before tax from continuing operations (and from ordinary activities) includes the following items of revenue and expense:

(a) Revenue

Revenue from operations	2022 $'000	2021 $'000
Revenue from sale of goods	111,292	162,186
Revenue from rendering of services	26,620	50,145
	137,912	**212,331**

Disaggregation of Revenue. The consolidated entity 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	2022 $'000	2021 $'000
Defence Segment		
Sale of goods	83,512	103,059
Providing of services	8,887	38,682
Space Segment		
Sale of goods	22,132	15,053
Providing services	3,301	3,627
Total Revenue Recognised Over Time	**117,832**	**160,421**

During the 2022 and 2021 year, there was a cumulative catch-up adjustment to Revenue and Contract Assets arising from a change in the assessment of whether variable revenue was constrained.

All other Revenue is recognised at a point in time.

Revenue Recognition at a Point in Time	2022 $'000	2021 $'000
Defence segment		
Sale of goods	2,100	36,941
Providing of services	11,452	5,834
Space segment		
Sale of goods	3,548	7,132
Providing services	2,980	2,003
Total Revenue recognised at a Point in Time	**20,080**	**51,910**

Total Revenue Recognised	**137,912**	**212,331**

(b) Other Income

	Note	2022 $'000	2021 $'000
Interest:			
Bank deposits		41	30
Other		189	426
Grant income		480	133
Bargain purchase	13	870	-
Other income		280	386
		1,860	**975**

(c) Expenses

The Loss/(Profit) for the year from Continuing Operations includes the following expenses:

	2022 $'000	2021 $'000
Impairment of assets	7,315	-
Foreign exchange (gains)	(12,666)	(9,797)
Interest expense on lease liabilities	1,317	1,174
Interest on borrowings	5,905	975
Other finance costs	7,030	4,452
Amortisation of intangibles	1,597	1,597
Depreciation of property plant and equipment	4,324	3,892
Depreciation of right of use assets	5,138	4,562

4. Discontinued Operations

On 15 November 2022, EOS assigned its US subsidiary SpaceLink to an assignee under an ABC process in the United States. Under this process, the Assignee became responsible for the disposal of SpaceLink assets, the distribution of proceeds to the creditors, as well as the management of all of the winding up activities of the Company. The consolidated entity therefore 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. SpaceLink was not previously classified as held-for-sale or as a Discontinued Operation. The comparative consolidated statement of profit and loss and other comprehensive income has been re-presented to show the Discontinued operation separately from Continuing Operations.

A gain arose on the assignment and effective disposal of SpaceLink as the assignment process allowed the group to dispose of net liabilities for nil proceeds and at no cost.

The intra-Group transactions between Discontinued Operations and Continuing Operations have been fully eliminated in the consolidated financial results.

In the analysis below, management has elected to attribute the elimination of transactions between continuing and Discontinued Operation before the Assignment and effective disposal of SpaceLink.

In the results shown below, there were no material transactions with the Continuing Operations during the current year or the prior year.

The results of SpaceLink are presented below:

Discontinued Operations	Note	2022 $'000	2021 $'000
Other income		39	-
Raw materials and consumables used		-	(19)
Employee benefit expenses		(12,525)	(10,111)
Occupancy costs		(240)	(255)
Administration expenses		(17,068)	(6,453)
Other expenses		(568)	(232)
Amortisation of Intangible assets		(401)	(1,227)
Depreciation of property plant and equipment		(159)	(62)
Depreciation of right of use assets		(438)	(423)
Finance cost		(197)	(14)
Impairment loss	6	(47,181)	(1,790)
Onerous contract provision		(2,932)	-
Loss Before Tax from Discontinued Operations		**(81,670)**	**(20,586)**
Tax expense		-	-
Loss after tax for the Year from Discontinued Operations		**(81,670)**	**(20,586)**
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)**	**(20,586)**

The net Cashflows incurred by SpaceLink were:

Cashflow – Discontinued Operations	2022 $'000	2021 $'000
Operating Cashflows	(15,321)	(32,114)
Investing Cashflows	(11,373)	(1,747)
	(26,694)	**(33,861)**
Financing Cashflows (provided by Continuing Operations)	26,478	34,254

5. Earnings Per Share

	Note	2022 cents per share	2021 cents per share
Basic			
Continuing Operations		(35.8 cents)	5.4 cents
Discontinued Operations		(42.2 cents)	(14.8 cents)
Total		**(78.0 cents)**	**(9.4 cents)**
Diluted			
Continuing Operations		(35.8 cents)	5.4 cents
Discontinued Operations		(42.2 cents)	(14.8 cents)
Total		**(78.0 cents)**	**(9.4 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		2022 $'000	2021 $'000
Earnings – net Loss attributable to equity holders of parent	(a)	(114,540)	(13,006)
Adjustments to exclude loss for the year from Discontinued Operations	4	61,954	20,586
Earnings from Continuing Operations for the purpose of basic and diluted earnings per share excluding Discontinued Operations		(52,586)	7,580

Number of Shares		2022 No. of shares	2021 No. of shares
Weighted average number of ordinary shares used in the calculation of basic earnings per share	(b) (c)	146,853,905	138,876,922

(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 1,830,000 unlisted options outstanding are not considered dilutive as all the conditions of exercise have not been met at the reporting date and given the consolidated entity made a loss in the period.

(c) Shares issued under the Loan Funded Share Plan 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 consolidated entity made a loss in the period. These include the 2,270,000 ordinary shares issued on 19 May 2020 at a price of $4.75 each, the 2,500,000 ordinary shares issued on 29 May 2020 at $4.92 each, the 860,000 ordinary shares issued on 10 August 2020 at $5.62 each, the 150,000 ordinary shares issued on 14 October 2020 at $5.47 each, the 1,185,000 ordinary shares issued on 15 March 2021 at $5.27 each and the 150,000 ordinary shares issued on 31 May 2021 at $4.06 each.

6. Impairment of assets

Impairment indicators and testing

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

During the year ended 31 December 2022, management identified indicators of impairment in regard to certain individual assets within the SpaceLink and Defence CGUs, and a Company-wide indicator of impairment in relation to the consolidated entity's market capitalisation and performance against budgets for the financial year.

Discontinued Operations - SpaceLink

During the year, as the result of a significant deterioration in the risk appetite in debt and equity markets, including from parties with whom the consolidated entity was previously in advanced stages of negotiation, and consequential delays in obtaining required funding for SpaceLink, the consolidated entity carried out a review of its plans in relation to SpaceLink and the recoverable amount of assets of SpaceLink.

As reported in the 30 June 2022 half year report, this review led to the carrying amounts of several assets being impaired in full. These included capital work in progress ($31,931,000), intangible assets ($2,785,000), FCC security bond ($5,804,000), Right of Use assets ($4,057,000) and other assets ($2,604,000).

On 15 November 2022, SpaceLink was assigned to an assignee. This resulted in a loss of control of SpaceLink and it has been treated as a discontinued operation (see note 4 for further details). Accordingly, the amounts above have been recognised as part of the reported Loss After Tax for the Year from Discontinued Operations.

As a result, an impairment loss of $47,181,000 has been recognised in the Loss After Tax for the Year from Discontinued Operations.

Continuing Operations

Defence

As reported in the 30 June 2022 Half year report, management performed an assessment of the recoverable amount of its Defence CGU as at 30 June 2022. This assessment resulted in impairment charges being recognised in relation to all of the Goodwill allocated to the Defence CGU of $2,505,000 and in relation to a Defence property Right of Use asset of $1,284,000.

Corporate Head Office

During the year, as the result of a reduction in an overall headcount of the Company as part of its strategic review, the Company identified an impairment indicator in relation to its lease for its Canberra Head Office property. While the Company continues to assess options for the lease, it concluded that the carrying value of the Right of Use asset exceeded its recoverable amount. As a result, an impairment expense of $3,526,000 was recognised at 31 December 2022. The Corporate assets are allocated to the CGU's for CGU level impairment testing.

The total impairment expense recorded during the year for Continuing Operations was $7,315,000.

Market capitalisation deficiency and performance against budget

In addition to the indicators noted above, management noted that the carrying amount of the consolidated entity's net assets continues to be more than its market capitalisation as at 31 December 2022, and that financial performance for the current financial year was below budget. These are specific indicators 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, EMS and Space as of 31 December 2022.

The 31 December 2022 assessment showed the recoverable amount for all CGUs being higher than their carrying values and as such the consolidated entity did not identify any further impairments as at 31 December 2022.

Key assumptions and sensitivities used for impairment assessment

The recoverable amount of the CGUs of the consolidated entity have been assessed by reference to the higher of value in use and fair value less cost of disposal, determined by discounting a Cashflow Forecast with the weighted average cost of capital of each CGU.

The key assumptions in the impairment models are:

Assumption	**Basis of Assumption**
Future sales levels	Derived from the Company'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%.

Management reviewed the discount rates used based on the prevailing market conditions as of 31 December 2022, the risk profile related to assumed future Cashflows and other relevant considerations. The discount rates used in calculating the value in use for each CGU are given below:

Defence	15.1%
Space	21.4%
EM Solutions	17.0%

Sensitivity analysis

The consolidated entity 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 our future sales levels by 10%, reducing the long-term growth rate to 0.5% and increasing the discount rate by an additional 3%.

For the Defence CGU, the recoverable amount as derived using the cashflow model, was assessed as being higher than the carrying value. As expected, and following the impairment provision recorded at 30 June 2022, sensitivity analysis indicated that a reasonable change in the key assumptions noted above would cause further impairment. As a result, and in light of the market capitalisation being significantly lower than the carrying value, management reviewed the carrying value of specific individual assets within the Defence CGU for impairment. In conclusion, it was determined that no further impairment charges were required at this time.

For the Space CGU, management observed that a reasonable change in future sales levels and discount rates would cause impairment. In applying these sensitivities, the maximum expected of the goodwill impairment is $2.5m.

These sensitivities in each case do not cause the recoverable amount of the EMS CGU to fall below its carrying value.

7. Borrowings

	Note	2022 $'000	2021 $'000
Secured borrowings			
RNC Nominees Pty Ltd	(a)	-	34,448
Washington H. Soul Pattinson and Company Ltd ("WHSP")	(b)	70,834	-
Total secured borrowings		**70,834**	**34,448**
Unsecured borrowings		1,904	-
Total borrowings, net	(c)	**72,738**	**34,448**
Current portion		23,295	34,448
Non-current portion		49,443	-
Total borrowings, net	(c)	**72,738**	**34,448**

a) Secured borrowings – RNC Nominees Pty Ltd

On 27 August 2021 the consolidated entity entered into a $35m working capital facility with RNC Nominees Pty Ltd ('RNC facility'). The facility had a 12-month term and carried interest of 9% per annum. The loan was secured by a general security deed which ranked pari passu with the Export Finance Australia (EFA) facility (see note 11c and d). The loan was repaid in full on 7 September 2022, using proceeds from new secured borrowing facilities from WHSP, with direct settlement between the two lenders. Details of the new loan are included in note b) below.

The RNC facility included a financial covenant that required the consolidated entity to have a total cash balance of $55m from 5 June 2022 (i.e. 90 days prior to the Maturity Date). As the consolidated entity's cash balance was below this level, the covenant was breached. As the loan was subsequently repaid on 7 September 2022, the covenant breach lapsed.

b) Secured borrowings – WHSP

As at 31 December 2022, the Group had three secured borrowings with WHSP ('WHSP facilities'):

(i) Working Capital Principal Facility of $20.0m. The agreement was entered into on 7 September 2022 with Maturity Date of 6 September 2023. The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term Loan Facility below and the Export Finance Australia Facility (see note 11c and 11d).

(ii) 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%. 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.

(iii) 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% and is secured by a general security deed which ranks pari passu with the Export Finance Australia facility.

As consideration for the entry into the new Term Loan Facility, the Company issued 7,653,040 new fully paid ordinary shares in the Company to WHSP for no cash consideration (see note 8). This has been treated as a share-based payment and included in borrowing costs.

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. Other transaction costs of $1,604,000 were also incurred in obtaining the WHSP Facilities.

The WHSP facilities specify a "Minimum Earn" amount under which, in the event of early repayment, EOS is required to pay the full interest and Line Fee that would otherwise be payable to maturity for the term of the facility. The total repayment including the Minimum Earn is a minimum of $120,000,000 and up to a maximum of $127,000,000.

As at 31 December 2022 the current portion of the WHSP Facility loans outstanding was $21,391,000 (2021 $Nil) and non -current portion was $49,443,000 (2021 $Nil).

The WHSP facilities include the following financial covenants:

(i) The asset coverage ratio is required to be more than 1.6:1 and is required to be tested each month until 31 December 2023 then is required to be tested each quarter.

(ii) The Cash inflows ratio is required to be more than 0.9:1. This ratio is defined as the EOS Group's actual cash inflows (over a 3-month period), relative to the Company's cash inflow forecast (over that 3-month period). This ratio is required to be tested each month until 31 December 2023.

(iii) The Cash outflows ratio is required to be less than 1.1:1. This ratio is defined as the EOS Group's actual cash outflows (over a 3-month period), relative to the Company's cash outflow forecast (over that 3-month period). This ratio is required to be tested each month until 31 December 2023.

(iv) Interest coverage ratio is required to be more than 2:1. This ratio is defined as EOS Group's net cashflow 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.

Other borrowings issued by the consolidated entity do not include any covenants.

c) 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:

	2022 $'000	2021 $'000
Total borrowings owing to lenders	85,467	35,000
Unamortised cost of establishing borrowings	(12,729)	(552)
Total borrowings, net	**72,738**	**34,448**

8. Issued share capital

During the year ended 31 December 2022, the Company issued new shares as follows:

- On 4 July 2022, the Company issued 12,500,000 new ordinary shares at a price of $1.20 per share
- On 27 July 2022, the Company issued 168,737 new ordinary shares at a price of $1.20 per share under the Share Purchase Plan.
- On 13 October 2022, the Company issued 7,653,040 new fully paid ordinary shares to Washington H. Soul Pattinson and Company Ltd, as part of the arrangements relating to the establishment of the WHSP Facilities (see note 7). These were issued for nil cash consideration, and a fair value of $0.51 per share was attributed for accounting purposes.

The issued capital as at 31 December 2022 was $432,248,000. No options were issued during the period.

During the year ended 31 December 2021, the Company issued new shares as follows:

- On 15 March 2021, the Company issued 1,185,000 new ordinary shares at a price of $5.27 per share under the Loan Funded Share Plan.
- On 31 May 2021, the Company issued 150,000 new ordinary shares at a price of $4.06 per share, to a Director, under the Loan Funded Share Plan.
- On 15 March 2021, the Company issued 475,000 unlisted options at an exercise price of $5.27, to Employees, under the Employee Share Option Plan. These options expire on 16 March 2026.
- On 22 July 2021, the Company issued 280,000 unlisted options at an exercise price of $4.31 to Employees under the Employee Share Option Plan. These options expire on 26 July 2026.

The issued capital as at 31 December 2021 was $413,728,000. No options were exercised during the period.

9. Reserves

	2022 $'000	2021 $'000
Foreign currency translation reserve	277	(1,823)
Employee equity settled benefits reserve	12,268	13,390
Balance at end of financial year	**12,545**	**11,567**

10. Accumulated Losses

	2022 $'000	2021 $'000
Balance at beginning of financial year	(93,959)	(80,953)
Net loss for the year	(114,540)	(13,006)
Balance at end of financial year	**(208,499)**	**(93,959)**

11. Contingent Liabilities and Commitments

a) The consolidated entity 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	2022 $'000	2021 $'000
Offset bond for a defence contract	(c)	10,741	4,444
Performance bond for a defence contract	(d)	23,395	17,427
Rental bonds		1,331	1,215
Performance bond for SpaceLink's satellite launch		-	5,055
Deposits for credit card guarantee		121	-
		35,588	28,141

b) Entities within the consolidated entity are involved in contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity 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 legal proceedings have been commenced against any entity within the consolidated entity.

c) The consolidated entity executed an offset agreement in relation to an overseas defence contract for an amount of US$16,957,000 (A$25,029,000). This is secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US$7,277,000 (A$10,741,000) and a fixed and floating charge over the assets of the consolidated entity.

d) The consolidated entity maintains a performance bond for US$33,249,000 (A$49,076,000) 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$15,850,000 (A$23,395,000) and a fixed and floating charge over the assets of the consolidated entity.

e) At 30 June 2022, the consolidated entity breached certain covenants associated with its EFA Facility Agreement. As a result, during the year EFA had the right to call the guarantees as detailed in c) and d) above. EFA did not exercise its right to call these guarantees and did not formally waive its right. In October 2022 these covenants were replaced with new covenants, identical to those specified under the WHSP loan facilities disclosed in note 7. At 31 December 2022, the consolidated entity was not in breach of the new covenants applying at that date.

f) 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 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.

g) During the year ended 31 December 2022 Electric Optic Systems Pty Ltd and AEI Air (Holdings) Limited entered into a Settlement Deed in relation to a prior arrangement. As a result of that settlement deed, these arrangements have ended. Refer note 14 for details.

The prior arrangement was that during the prior years, Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, had entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to £2,000,000 as a series of convertible notes.

These arrangements were previously to entitle Electro Optic Systems Pty Limited to convert these convertible notes, when advanced in full, to acquire 49% of the equity in AEI Air (Holdings) Limited. Electro Optic Systems Pty Limited had also entered into a Put and Call Option Deed with the vendors of AEI Air (Holdings) Limited to acquire a further 49% from the vendors of AEI Air (Holdings) Limited based on a profitability formula over the four-year period from 1 January 2019 to 31 December 2022 and meeting various milestones.

The Put and Call Option Deed also included provisions for Electro Optic Systems Pty Limited to make vendor loans of up to £1,714,000 to the vendors of AEI Air (Holdings) Limited which were fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option was exercised the loans were able to offset the exercise price on settlement.

As at the prior year, £1,500,000 had been advanced under the Unsecured Convertible Note Deed and no amounts have been advanced to the vendors under the Put and Call Option Deed at their request. Electro Optic Systems Pty Limited held no direct equity in AEI Air (Holdings) Limited.

12. Details of entities over which control has been gained or lost

Name of Entity:	KiwiStar Optics (Refer note 13)
Date of gain of control:	7 April 2022 - 100% acquisition
Contribution to net loss for the period:	$1,055,000

Name of Entity:	SpaceLink Corporation (Refer note 4)
Date of loss of control:	15 November 2022 - 100% effective loss of control
Contribution to net loss for the period:	$61,954,000

13. Acquisition of Subsidiary

On 8 September 2021, Electro Optic Systems Pty Ltd, a wholly owned subsidiary of EOS entered into an asset purchase agreement (APA) with Callaghan Innovation (Vendor) for the purchase of certain assets from KiwiStar Optics (KiwiStar, together the KiwiStar Assets) (the Transaction).

Upon satisfaction of various substantive conditions within the APA, EOS and the Vendor entered into Letters of Variation which varied the terms of the APA on 3 November 2021 and 7 April 2022 (together, the "Variation Agreement"). Also on 7 April 2022, EOS and the Vendor entered into a separate agreement relating to the settlement of certain claims in connection with the Variation Agreement (the "Settlement Agreement"). On signing of the Variation Agreement and Settlement Agreement on 7 April 2022, title to the KiwiStar Assets transferred from the Vendor to EOS.

The KiwiStar Assets include a mix of specialised scientific plant and machinery used to produce precision optics for astronomy purposes.

The operations of KiwiStar include strategic and operational processes for the production of precision optics for astronomy purposes and commercial outputs, including five key Employees which were required to accept employment with EOS as a condition to the transaction. On completion of the acquisition, the balance of KiwiStar Employees were also offered employment with EOS as per clause 15 of the APA and accepted. These Employees continue to manage the aforementioned strategic and operational processes.

Given the above, the transaction meets the criteria to be defined as a business as required by AASB 3 Business Combinations and has been treated as a business combination. The acquisition date has been determined as 7 April 2022.

The accounting for the Transaction has been provisionally determined as at 31 December 2022 using initial measurements which are subject to change during the measurement period. The measurement period shall not exceed one year from the date of acquisition and will end as soon as the deferred tax implications of the Transaction have been determined. Based on this, the provisional fair value of net assets acquired, and liabilities assumed are as follows:

Acquisition details	2022 $'000
Property plant and Equipment	1,338
Employee related liabilities	(150)
Total Net assets acquired	**1,188**
Satisfied by:	
Cash paid	232
Prepaid rent reducing consideration paid	(151)
Salary costs paid which are treated as in substance consideration	237
Total consideration	**318**
Provisional bargain purchase	**870**

A provisional bargain purchase gain of $870,000 has been recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 as the provisional value of the net assets of the acquired business is greater than the consideration paid. The bargain purchase gain arose as the seller was motivated to sell the assets to a known third party and the gain is included in Other Revenue under Note 3b.

Acquisition related expenses of $14,000 have been expensed during the year ended 31 December 2022.

On acquisition date, EOS transferred the KiwiStar Assets to its wholly owned New Zealand subsidiary, EOS Optical Technologies Limited ('EOSOTL').

EOSOTL contributed $152,000 Revenue and a loss of $1,055,000 to the consolidated entity's Loss Before Tax for the period between 7 April 2022 (date of acquisition) and the reporting date.

14. Details of Associates

On 13 July 2022 Electro Optic Systems Pty Ltd and AEI Air (Holdings) (AEI) Limited entered into a Settlement Deed and Release Agreement wherein it was agreed that AEI would compensate EOS an amount of £1,642,000 (A$2,753,000) for:

- the principal amount of the convertible notes of £1,500,000 referred to in note 11(g) above,
- interest of £135,000, and
- payment for ammunition used by AEI to date of £7,000.

This effectively cancelled both the Unsecured Convertible Note Deed and the Put and Call Option Deed thereby terminating the relationship between the consolidated entity and AEI.

AEI therefore ceased being an associate of the consolidated entity on 13 July 2022.

Between 29 July 2022 and 2 August 2022 EOS received an amount of £1,615,000 (A$2,576,000) representing the full settlement amount above less applicable withholding tax.

15. Other Significant Information

None

16. Information on Audit or Review

This Preliminary Final Report is based on accounts to which one of the following applies.

- ☐ The accounts have been audited.
- ☐ The accounts have been subject to review.
- ■ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have not yet been audited or reviewed.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

The audit is currently in progress and, based on the auditor's assessment of the information available at the date of this report, it is likely that the audit report will include a note that draws attention to a Material Uncertainty that exists related to Going Concern.

The auditor will continue to assess going concern and consider relevant events, additional information or changes in circumstances up until the date of the audit report.

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable