



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the shareholders of ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED will be held at the following time and place:

Time: 9.30 am

Date: Monday 30 May 2016

Place: Barnet Room, The Westin Hotel, No 1 Martin Place,
Sydney, NSW, 2000 Australia

ORDINARY BUSINESS:

1. Consideration of Financial Statements

"To receive and consider the Financial Report, Directors' Report and Auditor's Report for the financial year ended 31 December 2015."

2. Appointment of Dr Ben Greene as a Director

To consider and if thought fit to pass the following resolution as an ordinary resolution:

"That Dr Ben Greene, who retires by rotation in accordance with the provisions of the Constitution of the Company, and, being eligible, be re-elected as a Director of the Company"

3. Appointment of Mr Ian Dennis as a Director

To consider and if thought fit to pass the following resolution as an ordinary resolution:

"That Mr Ian Dennis, who retires by rotation in accordance with the provisions of the Constitution of the Company, and, being eligible, be re-elected as a Director of the Company"

4. Appointment of Mr Geoff Brown as a Director

To consider and if thought fit to pass the following resolution as an ordinary resolution:

"That Mr Geoff Brown, who was appointed as an additional director on 21 April 2016 retires in accordance with the provisions of the Constitution of the Company, and, being eligible, be re-elected as a Director of the Company"

5. Remuneration Report

To consider and if thought fit to pass the following resolution as an ordinary resolution:

"That the Remuneration Report section of the Directors' Report for the Company for the year ended 31 December 2015 be adopted."

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6. Issue of Options to Director - Mr Geoff Brown

To consider and if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

“For the purposes of ASX Listing Rule 10.14 and all other purposes, the Company be authorised to issue 200,000 Options to Mr Geoff Brown to subscribe for Shares in the Company on the terms and conditions set out in the attached Explanatory Memorandum which accompanies this Notice of Meeting and upon exercise, to allot Electro Optic Systems Holdings Limited shares.”

DATED: 27 April 2016

By Order of the Board of Directors

I A Dennis

Company Secretary

EXPLANATORY MEMORANDUM TO SHAREHOLDERS TO ACCOMPANY THE NOTICE OF ANNUAL GENERAL MEETING

This Memorandum has been prepared for the information of shareholders of Electro Optic Systems Holdings Limited (referred to in this Memorandum as the "Company") in connection with the business to be conducted at the Annual General Meeting of the members of the Company to be held on Monday 30 May 2016.

1. Item 1 - Financial Report

The Corporations Act 2001 (Cth) (Corporations Act) requires the financial report (which includes the financial statements and directors' declaration), the directors' report and the auditor's report for the last financial year to be laid before the Annual General Meeting. There is no requirement either in the Corporations Act or in the Constitution of the Company for shareholders to approve the financial report, the directors' report or the auditor's report. Shareholders will have reasonable opportunity at the meeting to ask questions and make comments on these reports and on the business and operations of the Company.

2. Item 2 - Re-election of Dr Ben Greene as a Director

Dr Ben Greene was appointed to the Board on 11 April 2002.

BE (Hons), Phd in Applied Physics (Age 65) is the Chief Executive Officer of Electro Optic Systems. Dr Greene was involved in the formation of Electro Optic Systems. 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. Dr Greene is a member of Australia's Prime Ministers Science, Engineering and Innovation Council (PMSEIC), CEO of the Cooperative Research Centre for Space Environment Management and Deputy Chair of the Western Pacific Laser Tracking Network (WPLTN).

3. Item 3 - Re-election of Mr Ian Dennis as a Director

Mr Ian Dennis was appointed to the Board on 8 May 2000.

BA, C.A. (Age 58) is a Chartered Accountant with experience as director and secretary in various public listed companies and unlisted technology companies in Australia and overseas. He has been involved in the investment banking industry and stockbroking industry for the past twenty five years. Prior to that,

he was with KPMG, Chartered Accountants in Sydney. He is a member of the Australian Institute of Company Directors and is a member of the Audit Committee and Remuneration Committee. He is a director and secretary of Audio Pixels Holdings Limited. He is also company secretary of Electro Optic Systems Holdings Limited.

4. Item 4 - Re-election of Mr Geoff Brown as a Director

Mr Geoff Brown was appointed to the Board on 21 April 2016 as an additional director.

AM Brown joined the RAAF in February 1980 after completing an Engineering degree in mechanical engineering. He graduated from No.111 Pilots' Course in 1981 and was initially posted to 12SQN Amberley to fly Chinooks. After three years at 12SQN he was posted to 2FTS Pearce and spent 18 months as a Flying Instructor before being posted to Central Flying School (CFS) East Sale in 1986. While at CFS he was a member of the *Roulettes* aerobatic display team, from 1987-89.

In 1990, he was posted to Williamtown for a Hornet conversion and then completed a short tour at 77SQN. On promotion to SQNLDR in 1991, he was posted to 75SQN Tindal as a Flight Commander. In 1993, Geoff was then posted to 77SQN as Executive Officer. He completed RAAF Staff College in 1995 and was subsequently posted to Headquarters Air Command.

From 1997 to 2000, Geoff commanded No.3 Squadron. After completing F-111 conversion he assumed the position of Officer Commanding No.82 Wing in December 2000. In 2003 he commanded all F/A-18 and C-130 operations in *Operation Iraqi Freedom* and was appointed a Member of the Order of Australia and a Legion of Merit for his service.

He was Officer Commanding Airborne Early Warning and Control Systems Program Office from June 2003 until December 2004 and spent 2005 at the Centre for Defence and Strategic Studies.

He then commanded Air Combat Group throughout 2006. From Jan 2007 until Jun 2008 he was Director-General Capability Planning in Air Force Headquarters. He was the Deputy Chief of Air Force from 30 June 2008 to 3 July 2011.

Air Marshal Brown was appointed **Chief of Air Force** on the 4 July 2011 and served in that role until July 2015. He was appointed an Officer of the Order of Australia (AO) during his term as Chief of the Air Force.

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5. Item 5 - Remuneration Report

The Annual Report for the year ended 31 December 2015 contains a Remuneration Report which sets out the remuneration policy of the Company and the remuneration arrangements in place with the Directors.

Under the provisions of the Corporations Act 2001, the shareholder vote is advisory only and will not require the Company to alter any arrangements detailed in the Remuneration Report, should the resolution not be passed. Notwithstanding the legislative effect of this requirement, the Board has determined that it will take the outcome of the vote into consideration when considering the remuneration policy.

6. Resolution 6 - Issue of Options to a Director - Mr Geoff Brown

Background

The Remuneration and Nomination Committee review executive director remuneration packages and non-executive remuneration packages on a regular basis and recommend changes to the Board.

Mr Geoff Brown joined the Board of the Company on 21 April 2016 and as part of his remuneration package was offered 200,000 unlisted options on the same terms and conditions as those options issued to the other non-executive directors and approved at a shareholders meeting on 5 February 2016.

The Board has made a decision to issue options to Mr Geoff Brown on the basis that it will align a portion of their remuneration to achieving continued and sustainable growth in Shareholder value. Structuring a longer term incentive in this way is seen as a cost effective method of providing an incentive for their ongoing commitment and contribution.

The Board considers the proposed issue of options to Mr Geoff Brown is reasonable and appropriate having regard to the Company's circumstances.

The Company has not granted any options to Directors since the issue on 11 February 2016.

Key terms of the Options

The Board proposes to issue the Options as follows:

Number of Options	200,000
Exercise Price	A\$3.00
Expiry Date	31 January 2019
Vesting	50% of the number of options after one year 50% of the number of options after two years

Each option proposed to be issued is exercisable into one Share upon payment of the exercise price.

The options will only be exercisable after reaching their vesting date but must be exercised before their expiry date. Unexercised Options will lapse on their expiry date.

The Options will otherwise be issued on the same terms as any other Options granted under the ESOP (being the plan that was approved by Shareholders at the AGM on 28 June 2002 and available on the website). A number of the key terms include:

- **Treatment on cessation of employment:** If a Director cease to be a director prior to the vesting date, then the options will lapse (other than cessation by reason of death or mental health). If a director cease to be a director of the Company after the options have vested, then if not exercised, those options lapse (although the Company may decide in its absolute discretion that Options do not lapse, and may consider reasons such as retirement, ill health, accident or redundancy).
- **Treatment on change of control:** If a change of control occurs (as defined in the terms of the ESOP), the options will vest and become exercisable.
- **Entitlement to dividends:** The Options will not entitle the holder to any dividends.
- **Transferability:** The Options are non-transferrable.
- **Adjustments:** The ESOP contains provisions to adjust the terms of the Options in accordance with the manner provided by the Listing Rules (including for example in the case of a rights issue or consolidation, subdivision or return of the issued capital of the Company).

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Valuation of the Options

The Options will not be listed on any stock exchange and so there is no readily ascertainable market value of the Options. Accordingly, in such circumstances the Company has determined it is appropriate to value the Options in accordance with Accounting Standard AASB 2 (Share Based Payments). The Board notes that the value of the options can vary significantly depending on the methodology used and assumptions made and any one particular valuation methodology is not necessarily representative of the actual value of the Options.

In accordance with the requirements of Accounting Standard AASB 2, the indicative value of the options as at 21 April 2016 (being the latest practicable date prior to the printing of this document) is \$73,200 (\$0.366 per option) and was calculated using the Black and Scholes option pricing model ("B&S Model"):

Set out below are the specific assumptions and variables relied upon in calculating the indicative value set out above:

Assumptions

- That the Options are American call options (i.e. they can be exercised at any time prior to the expiry date);
- There are no transaction costs, options and shares are infinitely divisible, and information is available to all without cost;
- Short selling is allowed without restriction or penalty;
- The risk free interest rate is known and constant throughout the duration of the options contract; and
- No dividend is payable on the shares.

Variables

- Share price of \$1.23 (based on the weighted average price of the Company's shares over the last 28 trading days prior to the last practicable date before lodgement of this Notice with ASX on 21 April 2016;
- A risk free interest rate of 1.745%;
- Forecast volatility of 83%;
- An exercise price of \$3.00
- Expiry date of 31 January 2019 (3 years)

Notes

Any change in the variables applied in the B&S Model between the date of the valuation and the date the Options are issued would have an impact on their value.

Other Implications for the Company

Financial implications

Australian International Financial Reporting Standards require the Options to be expensed which is guided by AASB 2 (Share Based Payments). In accordance with AASB 2, these Options will be expensed pro-rata over the vesting period of the options.

Expensing the Options will have the effect of increasing both the expenses and contributed equity of the Company. Whilst there will be a reduction in profit, there will be no impact on the net assets or the cash position or financial resources of the Company as a result of expensing the Options.

There are no tax implications for the Company in issuing these Options.

Dilution

The Company presently has 56,845,926 Shares on issue with 5,515,000 Options outstanding to directors and staff. The grant of these additional 200,000 Options to Mr Geoff Brown will have a dilutionary effect on the percentage interest of exiting Shareholders' holdings if all Options are exercised.

The dilutionary effect if all the Options proposed to be granted to Directors are exercised would amount to approximately 9.13% of the Company's current issued Shares as detailed below:

Proforma assuming exercise of Options	Number
Current Shares on Issue	56,845,926
Potential Shares on Exercise of existing Options	5,515,000
Potential Shares on Exercise of Geoff Brown Options	200,000
Potential Shares on issue post exercise	62,560,926
Existing Shareholders % post exercise	90.86%

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If the Options are exercised by Directors, the value of the Company's Shares may also be diluted. If the Share price is higher than the exercise price the value will be diluted as the Directors will be paying lower prices for the Shares when they exercise the Options. In this regard, it is considered unlikely that the Options will be exercised if the Company's Share price is lower than the exercise price.

The Board notes that the process of exercising the Options will result in the Company raising additional funds for working capital purposes.

Other information

The Company is not aware of other information that would be reasonably required by Shareholders to make a decision in relation to the financial benefits contemplated by the proposed resolution.

(a) Mr Geoff Brown was appointed as a non-executive director of the Company on 21 April 2016. The Company as part of his non-executive director's remuneration has agreed to grant 200,000 Directors Options at an exercise price of \$3.00 on or before 31 January 2019, subject to shareholder approval. Mr Geoff Brown will also receive cash director's fees and superannuation of A\$41,016 per annum as a non-executive director. The 200,000 Director Options proposed to be issued to Mr Geoff Brown are to be issued under the terms of the Employee Share Option Plan approved by shareholders on 28 June 2002. The terms and conditions of these proposed Directors Options are set out in the attached schedule.

(b) Voting Exclusion Statement

In accordance with ASX Listing Rule 14.11 and Section 224 of the Corporations Act, the entity will disregard any votes cast on this resolution by:

- (i) a director of the entity; and
- (ii) an associate of any director.

However, the entity need not disregard a vote if:

- (i) if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction form on the proxy; or
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

- (c) The maximum number of securities to be issued to Geoff Brown and for which approval is required is 200,000 Options.
- (d) No Options have been issued to Directors or any associate of any Director under the EOS Employee Share Option Plan since the last approval on 5 February 2016, when shareholders approved the issue of a total of 3,000,000 unlisted options to Dr Ben Greene (2,000,000), Mr Fred Bart (200,000), Mr Ian Dennis (200,000), Mr Mark Ureda (200,000), Mr Peter Leahy (200,000) and Mr Kevin Scully (200,000). These Options were exercisable at \$3.00 per Option and expired on 31 January 2019 and were on the same terms as the options proposed to be issued to Mr Geoff Brown.
- (e) In accordance with ASX Listing Rule 10.15.4A all Directors are entitled to participate in the EOS Employee Staff Option Plan subject to shareholder approval. The names of the Directors are Fred Bart, Dr Ben Greene, Ian Dennis, Mark Ureda, Kevin Scully, Peter Leahy and Mr Geoff Brown.
- (f) The Company will issue the options within 12 months of the date of shareholder approval.
- (g) The options are being issued for no monetary consideration. The exercise price of \$3.00 per option were determined by the directors for the issue of options to directors based on the current share price of \$1.22 (21 April 2016). The exercise price of \$3.00 is more than 2.4 times the current share price.
- (h) The Company intends to use the funds raised through the issue and exercise of the Options for working capital.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. Section 208 of the Corporations Act prohibits a public company giving a financial benefit to a related party unless one of a number of exceptions apply.

A "financial benefit" is defined in the Corporations Act in broad terms and includes a public company issuing securities.

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For the purpose of this meeting, a “related party” includes:

- (a) a director;
- (b) an entity over which a director has control; and
- (c) an entity which believes, or has reasonable grounds to believe, that it is likely to become a related party in the future.

For the purposes of Chapter 2E of the Corporations Act, Mr Geoff Brown is a related party of the Company by virtue of the fact that he is a director.

Section 208 of the Corporations Act provides that for a public company to give a financial benefit to a related party of that company, the public company must:

- (a) obtain the approval of members in the way set out in Sections 217 to 227; and
- (b) give the benefit within 15 months after the approval.

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

The Board (other than Mr Geoff Brown) has formed the view that Shareholder approval under Chapter 2E of the Corporations Act is not required for the proposed issue of Director Options because the issue of Options is considered to be reasonable remuneration for the performance of services by Mr Geoff Brown in his capacity as a Director. The proposed issue will therefore fall within the exception provided by Section 211(1) of the Corporations Act to the requirement to obtain shareholder approval for the giving of a financial benefit to a related party in accordance with Chapter 2E of the Corporations Act.

Approval pursuant to Listing Rule 7.1 is not required in order to grant the Options to the Related Party as approval is being obtained under ASX Listing Rule 10.14. Accordingly, the grant of the Options to a related Party will not be included in the 15% calculation of the Company’s annual placement capacity pursuant to ASX Listing Rule 7.1.

ANNEXURE A



Terms and Conditions of Directors Options Proposed to be issued to Mr Geoff Brown

- a) Each Option entitles the holder to subscribe for and be allotted one ordinary share in the capital of the Company. The exercise price is \$3.00 per Option.
- b) The Options are exercisable at any time prior to 5.00 pm on 31 January 2019 (the "Expiry Date") by notice in writing to the Directors accompanied by the payment of the exercise price.
- c) The Options are not transferable, except with the Board's approval, or by force of law on death or legal incapacity.
- d) No application will be made to the ASX for Official Quotation of the Options.
- e) Shares will be allotted and issued pursuant to the exercise of Options not more than 10 business days after receipt of a properly executed Notice of Exercise and payment of the requisite application monies.
- f) Shares issued upon exercise of the Options will rank pari passu in all respects with the Company's fully paid ordinary shares. The Company will apply for Official Quotation by the ASX of all shares issued upon exercise of Options within 3 Business Days after the date of allotment of those Shares.
- g) There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered or made to the shareholders during the currency of the Options. However, the Company will send a notice to each option holder at least 9 business days before the record date for any proposed issue of capital. This will give option holders the opportunity to exercise their Options prior to the date of determining entitlements to participate in any such issue.
- h) There are no rights to a change in the exercise price, or in the number of Shares over which the Options can be exercised in the event of a bonus issue by the Company prior to the exercise of any Options.
- i) In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights on an option holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of the reorganisation.
- j) The Company will, at least 20 Business Days before the Expiry Date, send notices to the option holders stating the name of the option holder, the number of Options held, the number of Shares to be issued on exercise of the Options, the exercise price, the due date for payment of the exercise price, and the consequences of non-payment.
- k) The 200,000 Options will vest on the basis of 50% of the number of Options after the one year and the balance after two years.