Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2017

ACN 092 708 364

This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period:	Half year ended 30 June 2017
Previous Corresponding Period:	Half year ended 30 June 2016

Results for Announcement to the Market

Revenue and Net (Loss)

		Percentage Change %	Amount
Revenue from ordinary activities	Down	32.00	To $9,907,008
(Loss) from ordinary activities after tax attributable to members	Down	N/A	To ($4,259,015)
(Loss) attributable to members	Down	N/A	To ($4,259,015)

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 30 June 2017	$8,444,456
Number of ordinary shares outstanding at 30 June 2017	60,709,564
NTA per ordinary share at 30 June 2017	13.91 cents
NTA per ordinary share at 30 June 2016	9.47 cents

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

Refer to Directors' Report

Review of Operations

1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2017

The consolidated entity ("EOS") reported an operating loss after tax of $4,259,015 for the 6 month period to 30 June 2017 [2016: profit $1,065,423] based on revenues totalling $9,907,008 [2016: $14,570,487].

The consolidated entity reported net cash used by operations for the 6 month period totalling $6,149,262 [2016: $4,121,769]. At 30 June 2017, the consolidated entity held cash totalling $10,950,144 [30 June 2016: $7,644,911]. Cash of $119,025 [30 June 2016: $1,338,545] is restricted as it secures bank guarantees relating to performance on some contracts.

2. EOS DEFENCE SYSTEMS

This sector develops, markets, manufactures and supports remote weapon systems [RWS] and related products in global markets.

EOS has invested significant resources over 5 years in the development of next-generation RWS which offer major improvements in size, weight, combat effectiveness, firepower, accuracy and cost over all existing products. This product's outstanding performance was demonstrated to key customers from 2014 to encourage procurement activity. During 2016 it was offered in several significant competitive tenders globally.

The market response to this product has been exceptional. In the six months to 30 June 2017, EOS announced $170 million in executed supply contracts with Orbital ATK of the USA for the new product. This sale is larger than the total of all RWS orders placed competitively world-wide to all providers in 2016. The new product is having a major impact in the market.

Further contract awards for this product are anticipated during 2017, based on tenders already submitted and under evaluation.

RWS contracts are typically deliverable over 4-5 years with deliveries commencing 6-12 months after contract. The $170 million contract will require production at $4 million per month from an Australian production facility. This exceeds the capacity of EOS' current Australian facilities, and more orders are anticipated.

Consequently EOS has recently committed to the establishment of a new production facility in Australia with an initial capacity of $10 million per month of RWS per shift, as well as capacity for substantial research, development, logistics, maintenance, and support activities for RWS. This new facility is under intensive development to allow product shipments from early in 2018.

Over the past decade EOS has established RWS production in several outsourced locations globally. The high quality of production documentation developed for the outsourcing program are contributing to a smooth escalation of the company's Australian capacity through the new plant. All production activity is on schedule.

During 2017 EOS is also invested in supply chain improvements which will deliver improved financial performance through the life of all RWS contracts. This program is meeting all expectations.

The financial and human resource investments in increased capacity and supply chain optimisation impact financial performance in 2017 but will deliver long-term benefits to all production programs going forward.

3. EOS SPACE SYSTEMS

EOS space tracking sensors can cost-effectively obtain accurate orbital data for space debris and satellites. This information degrades rapidly after acquisition, so it must be continuously updated with new observations, almost daily. The requirement for new space data is persistent and long term.

On 1 February 2017 EOS announced that it had achieved initial operations at its new multi-sensor space tracking site at Learmonth in Western Australia. Since then full operational capability has been achieved, exceeding expectations of space data production. The site will serve as the template for expansion of capacity by replication on other sites.

Network qualifying tests mandated by key customers are expected to be completed before the end of 2017. These tests, fully funded through existing EOS data delivery contracts, will further establish technical performance, reliability, responsiveness and data quality. EOS does not expect significant issues with the tests.

The outstanding customer requirement which EOS space data must achieve is resilience. Although EOS' optical technologies are sensitive, inexpensive and highly accurate, their operation can be degraded and disrupted by bad weather. EOS now has ***two*** space tracking sites, with 95% certainty that one site will be operating at any specific time. Customers require 99% reliability which can be achieved from ***three*** widely dispersed sites.

Consequently a third EOS tracking site is proposed to be established in central Queensland. Network operations with all three sites operational are expected from 2019. From this point EOS will meet all customer requirements for space data. EOS is confident of securing the capital required for network expansion provided 2017 test results meet customer expectations.

Further capacity expansion will be undertaken as data volume requirements increase, as reflected in executed customer contracts.

4. FORECAST AND OUTLOOK

The operating loss of $4,259,015 for the 6 months ending 30 June 2017 was within management expectations.

In 2017 the company's focus is on establishing the plant, facilities, equipment, human resources, quality systems and management to expand RWS capacity to at least 5 times 2016 levels. There has also been a major effort to remove cost from the production process, including the supply chain. These are necessary investments in future profitability, and come at the expense of 2017 revenue and profits.

The company will continue to invest heavily through 2017 in establishing higher capacity and in removing cost from future production.

During 2017 the company's new RWS have been selected as the "preferred" bidder in every competitive tender in which they have competed. EOS project teams are now engaged in converting those successful tenders to new contracts. Historically most of these "preferred" positions are converted successfully to full contracts, so EOS is confident of increased orders for its new RWS.

Each RWS order adds revenue for 4-5 years, plus typically another 12-15 years of spare parts and support. Based on current contracts, successful tenders, and market momentum, the outlook for EOS' Defence Systems sector is very positive.

The outlook for EOS' Space Systems sector is also positive. Key customers have established and funded substantial programs requiring space data of the type now produced by the EOS network. No other cost-effective source for these data requirements is known. Even while the network is being further deployed to meet more needs it is capable of meeting important space data requirements, and generating revenue.

Financial and political uncertainties can adversely impact the governments which are EOS customers. The company cannot be certain that future customer procurements will continue as usual or that business conditions will not deteriorate from current expectations.

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the half year.

Ben Greene

Chief Executive Officer

28 August 2017

Directors Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Mr Ian Dennis
Mr Mark Ureda retired - 12 May 2017
Mr Peter Leahy AO
Mr Kevin Scully
Mr Geoff Brown

Review of Operations

A detailed review of operations is included on pages 3 to 5 of this financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 7 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

I.A Dennis
Director
Sydney, 28 August 2017

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Level 2
8 Brindabella Circuit
Brindabella Business Park ACT 2609
GPO Box 823
Canberra ACT 2601 Australia

DX 5661
Tel: +61 (0) 2 6263 7000
Fax: +61 (0) 2 6263 7001
www.deloitte.com.au

The Board of Directors
Electro Optic Systems Holdings Limited
Suite 2, Level 12
75 Elizabeth Street
SYDNEY NSW 2000

28 August 2017

Dear Board Members

Electro Optic Systems Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Electro Optic Systems Holdings Limited.

As lead audit partner for the review of the financial statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Level 2
8 Brindabella Circuit
Brindabella Business Park ACT 2609
GPO Box 823
Canberra ACT 2601 Australia

DX 5661
Tel: +61 (0) 2 6263 7000
Fax: +61 (0) 2 6263 7001
www.deloitte.com.au

Independent Auditor's Review Report to the members of Electro Optic Systems Holdings Limited

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2017, the condensed statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 23.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Electro Optic Systems Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Electro Optic Systems Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Electro Optic Systems Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss after tax of $4,259,015 (June 2016: $1,065,423 profit) and net cash used in operating activities for the six months ended 30 June 2017 was $6,149,262 (2016: $4,121,769). These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 28 August 2017

Directors' Declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

I A Dennis
Director
Sydney, 28 August 2017

Condensed Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2017

	Note	Half-year ended 30 June 2017 $	Half-year ended 30 June 2016 $
Revenue	2(a)	9,907,008	14,570,487
Other Revenue	2(b)	525	-
Changes in inventories of finished goods and work in progress		71,294	1,133,487
Raw materials and consumables used		(4,417,865)	(7,474,774)
Employee benefits expense		(6,938,651)	(6,641,785)
Administrative costs		(1,661,037)	(1,898,591)
Finance costs		(24,454)	(95,481)
Depreciation and amortisation expense	2(c)	(81,160)	(67,957)
Foreign exchange (losses)/ gains	2(c)	(501,311)	71,849
Lease expenses		(40,714)	(23,079)
Occupancy costs		(406,120)	(432,063)
Other expenses		(166,530)	(108,455)
(Loss) before income tax expense	2	(4,259,015)	(966,362)
Income tax benefit		-	2,031,785
(Loss)/ Profit for the period	4	(4,259,015)	1,065,423
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		280,796	73,656
Income tax relating to components of other comprehensive income		-	-
		280,796	73,656
Total comprehensive (loss)/ profit for the period		(3,978,219)	1,139,079
(Loss)/ Profit attributable to :			
Owners of the company		(4,259,015)	1,065,423
		(4,259,015)	1,065,423
Total comprehensive (loss)/ profit attributable to:			
Owners of the company		(3,978,219)	1,139,079
		(3,978,219)	1,139,079
(Loss)/ Profit per share:			
Basic (cents per share)	5	(7.24)	1.87
Diluted (cents per share)	5	(7.24)	1.87

Notes to the condensed consolidated financial statements are included on pages 15 to 23.

Condensed Consolidated statement of financial position as at 30 June 2017

	Note	30 June 2017 $	31 December 2016 $
Current Assets			
Cash and cash equivalents		10,950,144	8,874,967
Trade and other receivables		8,060,387	3,805,560
Inventories		7,697,828	3,478,996
Other – Prepayments		490,073	459,228
Total Current Assets		27,198,432	16,618,751
Non-Current Assets			
Property, plant and equipment		444,526	459,791
Total Non-Current Assets		444,526	459,791
Total Assets		27,642,958	17,078,542
Current Liabilities			
Trade and other payables		13,432,562	7,176,569
Provisions		5,404,518	5,553,555
Total Current Liabilities		18,837,080	12,730,124
Non-Current Liabilities			
Provisions		361,422	301,419
Total Non-Current Liabilities		361,422	301,419
Total Liabilities		19,198,502	13,031,543
Net Assets		8,444,456	4,046,999
Equity			
Issued capital		83,458,571	75,383,567
Reserves	3	8,961,349	8,379,881
Accumulated losses	4	(83,975,464)	(79,716,449)
Total Equity		8,444,456	4,046,999

Notes to the condensed consolidated financial statements are included on pages 15 to 23.

Condensed Consolidated Statement of changes in equity for the half-year ended 30 June 2017

	Total $	Accumulated losses $	Issued capital $	Foreign currency translation reserve $	Employee equity settled benefits reserve $
Consolidated					
Balance at 1 January 2016	3,751,671	(78,829,757)	75,383,567	(529,942)	7,727,803
Profit for the period	1,065,423	1,065,423	-	-	-
Other comprehensive income for the period	73,656	-	-	73,656	-
Total comprehensive income for the period	1,139,079	1,065,423	-	73,656	-
Recognition of share based payments	492,410	-	-	-	492,410
Balance at 30 June 2016	5,383,160	(77,764,334)	75,383,567	(456,286)	8,220,213
Consolidated					
Balance at 1 January 2017	4,046,999	(79,716,449)	75,383,567	(604,840)	8,984,721
Issue of 3,863,638 new ordinary shares	8,075,004	-	8,075,004	-	-
(Loss) for the period	(4,259,015)	(4,259,015)	-	-	-
Other comprehensive income for the period	280,796	-		280,796	-
Total comprehensive (loss) for the period	(3,978,219)	(4,259,015)	-	280,796	-
Recognition of share based payments	300,672	-	-	-	300,672
Balance at 30 June 2017	8,444,456	(83,975,464)	83,458,571	(324,044)	9,285,393

Notes to the condensed consolidated financial statements are included on pages 15 to 23.

Condensed Consolidated statement of cash flows for the half-year ended 30 June 2017

	Note	Half-year ended 30 June 2017 $	Half-year ended 30 June 2016 $
Cash Flows From Operating Activities			
Receipts from customers		9,673,038	12,180,147
Payments to suppliers and employees		(15,862,359)	(16,268,531)
Interest and bill discounts received		64,513	62,096
Interest and other costs of finance paid		(24,454)	(95,481)
Net cash (used in) operating activities		(6,149,262)	(4,121,769)
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(66,010)	(49,154)
Proceeds from sale of property, plant and equipment		-	-
Net cash (used in) investing activities		(66,010)	(49,154)
Cash Flows From Financing Activities			
Placement of new ordinary shares		8,075,004	-
Repayment of borrowings		-	-
Proceeds from borrowing		-	-
Net cash provided by financing activities		8,075,004	-
Net Increase/ (Decrease) in Cash Held		1,859,732	(4,170,923)
Cash and cash equivalents at the beginning of the half-year		8,874,967	11,894,300
Effects of exchange rate changes on the balance of cash held in foreign currencies		215,445	(78,466)
Cash and cash equivalents at the end of the half-year		10,950,144	7,644,911

Notes to the condensed consolidated financial statements are included on pages 15 to 23.

1. Significant accounting policies

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2016 annual financial report for the financial year ended 31 December 2016. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

1. Significant accounting policies (cont)

Going Concern

The financial report has been prepared on the basis that the consolidated entity is a going concern, 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 net loss after tax of $4,259,015 during the six months (period ended 30 June 2016: $1,065,423 profit). Net cash used in operating activities for the six months ended 30 June 2017 was $6,149,262 (period ended 30 June 2016: $4,121,769). As at 30 June 2017 the consolidated entity had cash of $10,950,144 (30 June 2016: $7,644,911) of which $119,025 (30 June 2016: $1,338,545) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted as the contracts are completed or renegotiated. At 30 June 2017 the consolidated entity had $8,389,572 of unearned income which will become earned as contracts are fulfilled (30 June 2016: $5,420,144).

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 on:

- the continued ability of the consolidated entity to deliver contracts on hand on time, to the required specification and within budgeted costs;
- the likelihood of key military and government customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the consolidated entity including obtaining and successfully negotiating commercial contracts, including contracts currently under negotiation; and
- the ability to raise capital from existing or new shareholders.

In the opinion of the directors, the consolidated entity can continue as a going concern and pay its debts as and when they become due and payable.

If the consolidated entity is unable to is unable to achieve successful outcomes in relation to the above matters, significant uncertainty would exist 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.

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $

2. (Loss)/ Profit From Ordinary Activities

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

(a) Revenue

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
Contract receipts	9,842,495	14,508,391
Interest received	64,513	62,096
Total revenue	9,907,008	14,570,487

(b) Other Revenue

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
Other revenue	525	-

(c) Expenses

(Loss)/ Profit for the period includes the following expenses:

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
Unrealised foreign exchange losses/ (gains)	501,311	(71,849)
Depreciation and amortisation of non-current assets	81,160	67,957

3. Reserves

	30 June 2017 $	31 December 2016 $
Foreign currency translation reserve	(324,044)	(604,840)
Employee equity settled benefits reserve	9,285,393	8,984,721
Balance at end of financial period	8,961,349	7,197,861

4. Accumulated Losses

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
Balance at beginning of financial period	(79,716,449)	(78,829,757)
Net (Loss)/Profit for the period	(4,259,015)	1,065,423
Balance at end of financial period	(83,975,464)	(77,764,334)

5. (Loss)/ Profit Per Share

	2017 ¢ per share	2016 ¢ per share
Basic EPS	(7.24 cents)	1.87 cents
Diluted EPS	(7.24 cents)	1.87 cents

Basic (Loss)/ Profit per Share

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

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
(Loss)/ Profit (a)	(4,259,015)	1,065,423

	2017 No.	2016 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	58,831,110	56,845,926

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

(b) Potential ordinary shares are anti-dilutive and hence diluted earnings per share is the same as basic earnings per share.

6. Contingent Liabilities and Commitments

a) 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 Group.

b) An entity within the group has committed to spend up to $5,000,000 under an agreement on capital infrastructure as disclosed in the 2016 Annual Report. As at the reporting date, the estimated remaining commitment is Nil.

c) The parent entity has provided a guarantee to the Commonwealth of Australia for $2,750,000 in respect of advance payments received of $3,564,309 (Inclusive of GST) in relation to a space sector project.

7. Segment Information

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

	Revenue		Segment profit	
	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
Space	1,996,933	6,619,111	(1,501,972)	(46,530)
Defence systems	7,845,562	7,889,280	(2,117,948)	97,162
Total of all segments	9,842,495	14,508,391	(3,619,920)	50,632
Eliminations	-	-	-	-
Unallocated	64,513	62,096	(639,095)	(1,016,994)
Consolidated segment revenue and Profit/(loss) before tax	9,907,008	14,570,487	(4,259,015)	(966,362)
Income tax benefit	-	-		2,031,785
Consolidated segment revenue and profit/(loss) for the period	9,907,008	14,570,487	(4,259,015)	1,065,423

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period.

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

	Assets		Liabilities	
	30 June 2017 $	31 December 2016 $	30 June 2017 $	31 December 2016 $
Space	1,890,067	1,327,933	7,420,926	7,541,602
Defence systems	14,802,747	6,875,642	11,777,576	5,489,941
Total segment assets	16,692,814	8,203,575	19,198,502	13,031,543
Unallocated cash	10,950,144	8,874,967	-	-
Total	27,642,958	17,078,542	19,198,502	13,031,543

7. Segment Information (cont'd)

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

The consolidated entity operates in Australia, USA, Singapore and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems and the manufacture of electro-optic fire control systems.

Product and Services within each Business Segment

Space

EOS's laser-based space surveillance systems have been demonstrated in customer trials and EOS is now well-placed to be a major contributor to the next generation of space tracking capability. Future business is dependent on large government contracts being awarded in the space sector.

In addition, EOS has space resources in its own right, and may enter the market for space data provision in the future.

The space sector also manufactures and sells telescopes and dome enclosures for space projects.

Defence systems

EOS 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 USA, Australasia and other markets.

8. Issuance of Securities

2017

On 30 March 2017, the Company issued 3,863,638 ordinary shares at $2.20 each to institutional clients of Petra Capital Limited at $2.20 each raising $8,075,004 after fees.

No options were exercised during the period.

Issued capital as at 30 June 2017 was $83,458,571.

2016

During the half year period, the Company issued 5,715,000 unlisted options to Directors and staff at an exercise price of $3.00 per share exercisable on or before 31 January 2019. The share based payment expense is included in the condensed consolidated statement of profit or loss and other comprehensive income.

No options were exercised during the period.

Issued capital as at 30 June 2016 amounted to $75,383,567.

9. Subsequent events

The Directors are not aware of any significant subsequent events since the end of the financial period and up to the date of this report.

10. Related party transactions

During the period, the Company paid a total of $33,398 (six month period ended 30 June 2016 - $33,398) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart.

During the period, the Company paid a total of $20,531 (six month period ended 30 June 2016 - $20,531) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of $60,000 (six month period ended 30 June 2016 - $60,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

During the period, the Company paid a total of $20,531 (six month period ended 30 June 2016 - $8,784) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors fees and superannuation for Mr Geoff Brown.

During the period, the Company paid a total of $11,318 (six month period ended 30 June 2016 - $10,402) to Audio Pixels Holdings Limited, a company which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

Information on Audit or Review

This half yearly 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.

Not applicable

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

Not applicable