EOS SURGES TOWARDS 2018 GOALS

Canberra 23 April 2018

Electro Optic Systems, (ASX: EOS) has made significant progress during the 3 months ending 31 March 2018 towards its goals for 2018. This progress is across a wide range of company activities.

1. Production

EOS has previously forecast 2018 production of remote weapon systems of 240 units at approximately 20 units/month. The production achieved for Q1 2018 [period ending 31 March 2018] was 40 units, as forecast, and a production rhythm of 20 units each month has also been achieved.

The picture below is of 40 units of Q1 production ready to ship in early April from the EOS production plant in Hume, ACT.

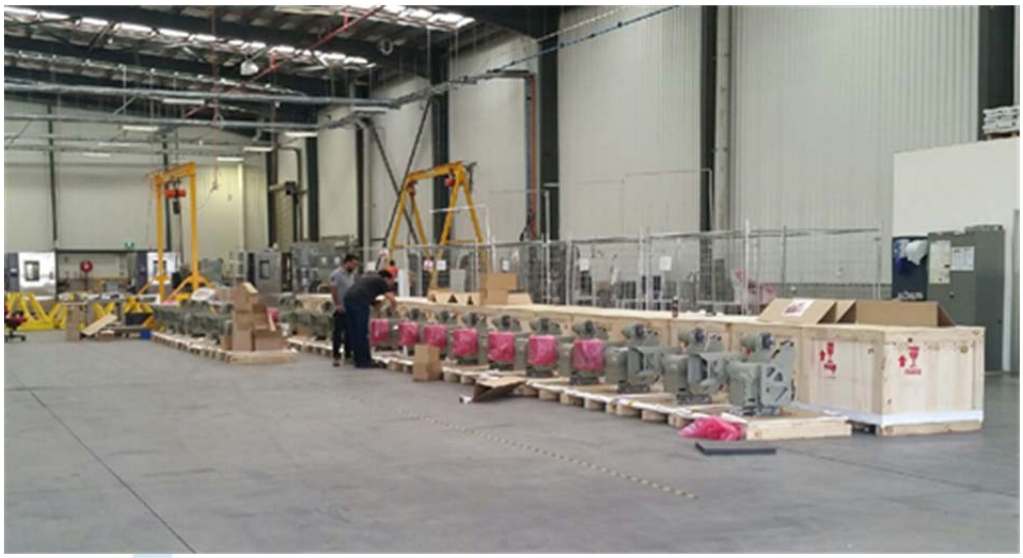

Figure 1: Q1 2018 RWS production prior to shipment

The profitability of production depends on yield and quality achieved.

The yield of the new production plant and processes has climbed from relatively low levels at the outset to the threshold of profitable operation during Q1 2018. This is slightly ahead of expectations and the yield trajectory is still positive, as required. Obstacles to improved yield are systematically being identified and eliminated, and these obstacles are diminishing in number and magnitude.

The product quality achieved meets or exceeds customer expectations. There have been no defects recorded in rigorous customer-attended pre-shipment testing in Australia or in fielding tests for units received at the customer location.

The combination of capacity, yield and quality achieved by 31 March 2018 is

consistent with prior forecasts by EOS.

The achievement of capacity, yield and quality objectives in the Hume production plant is a key pre-requisite for the rapid growth of capacity in EOS' new facility in Huntsville AL. Once the production process is established and these key metrics confirmed at higher capacity than presently operating, the process will transfer to Huntsville.

2. New Orders

EOS has received new orders for $12 million of remote weapon systems for delivery in 2018. These orders, from one existing customer and one new customer, will be met by scaling up production later 2018.

The passage of the US Defense budget has released funds in the USA for several programs which may require EOS capabilities. These acquisitions will now resume and EOS expects to compete strongly for contract awards from Q4 2018.

3. New Products

a. Short Range Air Defence [SHORAD] Systems

There is a rapidly emerging and well-funded market for SHORAD against UAS [uninhabited aerial systems] which deliver ordnance or obtain intelligence. The requirements are urgent.

Figure 2: Typical Counter-UAS configuration with EOS weapon system

EOS provides a *full suite* of SHORAD with *three* layers of defence deploying from its remote weapon systems: missiles, cannon and lasers:

- **Missiles**. The lightweight Stinger surface-to-air missile [USA] has been deployable from EOS weapon systems for over 20 years. Major threats require the use of these missiles from mobile platforms.

- **Cannon**. The R-400S Mk2 currently in full-rate production can lock airborne targets and deliver air-burst rounds to destroy UAS at ranges up to 2 km. This capability has been demonstrated in the USA in various configurations during 2017 and 2018.
- **Lasers**. EOS has developed a high-power laser for counter-UAS requirements based on kW-class lasers originally developed for EOS space applications. This laser deploys from a modified EOS remote weapon system and can disable or destroy any UAV moving into sight of the weapon.

Figure 3: Drone [UAV] destruction by EOS R-40S 30mm cannon fire

Figure 4: EOS R-600 RWS in directed energy (laser) configuration

b. Lightweight Remote Weapon system [RWS]

Improvements in materials and technology now allow EOS to produce a RWS which can mount all small arms and crew-served weapons at lower cost and weight than previously possible. This includes most 5.56mm, 7.62mm and 12.7 mm weapons. The new RWS was developed using Australian Department of Defence funds for Priority Industry Capability, and will be qualified for production later in 2018.

The RWS is designated R-150 and provides significant cost and weight savings over all prior generations of RWS for small arms. There is a substantial market emerging for replacement or upgrade of RWS for these applications.

Figure 5: EOS R-150 RWS with M2 12.7 mm heavy machine gun

Figure 6: R-150 RWS firing M2 12.7 mm heavy machine gun

4. EOS Incorporates in GCC

As part of its market expansion program, EOS has established an incorporated joint venture in United Arab Emirates with its Emirati joint venture partner Alebtakar Remote Control Systems Manufacturing. The new company, EOS Advanced Technologies LLC, is part of the EOS Group and will be a marketing, supplier management, production and product support centre for GCC countries.

5. Space Activities

An extensive period of testing of EOS capabilities in space situation awareness [SSA] was recently completed with one customer. This process simultaneously applied multiple sensors and sites and a wide range of missions were successfully completed.

6. Finance

EOS has recently placed around $41 million of performance bonds with customers, fully secured with EOS cash. All of this cash will be returned to EOS on project completion in several years. However a substantial proportion of the cash will be returned within 12 months because conventional bonding facilities can be deployed as and when EOS meets delivery milestones and performance risk falls for each contract.

Provided company operations continue on their current trajectory, EOS will meet or exceed its minimum stated revenue [$88M] and profit [$5M] targets for the full year ending 31 December 2018.

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ABOUT ELECTRO OPTIC SYSTEMS (ASX:EOS; OTC:EOPSY)

EOS operates in two sectors: Defence Systems and Space Systems.

- EOS Defence specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) for land warfare. Its key products are next-generation vehicle turrets and remote weapons systems.

- EOS Space sector specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space. This information has both military and commercial applications, including managing space assets to avoid collisions with space debris, missile defence and space control.