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EOS Business Update

Canberra, 15 April 2010

Electro Optic Systems Holdings Limited (ASX "EOS") continues to develop its military and space business sectors through opportunities that leverage its core competencies and proprietary technology for sustainable growth. Some recent developments have been:

Cycling of Remote Weapon System Inventory

Typical remote weapon systems require production lead times of 6 months, and this period is taken into account by customers when planning procurements. However it is often too long to meet urgent operational requirements for some key EOS customers. To meet these urgent requirements, EOS maintains an inventory of weapon systems that can be completed and delivered within 3 months.

Inventory allows the company to better meet customer needs, make opportunistic sales, and allows smoothing of production demand with re-stocking orders, leading to lower costs. Inventory was expanded in 2009 based on sales forecasts for 2010.

During the past 30 days EOS has shipped approximately \$10 million of its inventory for urgent customer requirements, and expects to ship another \$2 million over the next 60 days.

Remote Weapon System Developments in the Middle East

The Middle East is a large potential market for remote weapon systems and the success of the CROWS 1 product in this region has stimulated interest in EOS' current products.

EOS has marketed in this region for several years either directly or through corporate partnerships. In 2007 and 2009 EOS participated in the biennial IDEX military trade show in Abu Dhabi, and several successful competitive firing trials have been executed in the region.

Although the incubation time for sales is typically 4-5 years, progress is already being made. The current status of these efforts is:

- Four units have been sold to one country for training and testing. Further substantial orders may follow in 2011 depending on program funding.

- A second country has selected an EOS weapon system for extensive trials to be conducted for several months commencing in April 2010. Procurement is expected from 2011.

The potential of these two initial markets is several hundred weapon systems.

Satellite and Space Debris Data

EOS is a member of one of three consortia of industry and research institutions to be awarded an inaugural grant under the recently announced Australian Space Research Program (ASRP). The consortium funded by ASRP includes RMIT University, the Bureau of Meteorology, Curtin University of Technology, EOS, GPSat Systems Australia Pty Ltd, National Space Organisation Taiwan, NOAA's World Data Centre for Metrology, and the University of New South Wales. EOS' role is to provide accurate satellite orbit models.

The grant award to this consortium is A\$2,847,160 to be shared amongst the participants for the development of technologies for space tracking, global navigation, climate and atmospheric related research.

EOS is a world leader in high precision atmospheric drag and gravity models for satellite and space debris orbits, and this award will help fund further development of this capability. Improvement of these orbit models is one pre-requisite for large-scale operational deployment of EOS space debris tracking technology.

Giant Magellan Telescope Project [GMT]

The Australian commitment of \$88.4 million towards the GMT is fully-funded, and will be available for contracting GMT construction from 2011 onwards.

A key sub-system required for the GMT to meet its performance requirements is the adaptive optics [AO] system which will remove the image distortion of the atmosphere. The AO system for GMT will use artificial stars generated by lasers in the upper atmosphere to make high-speed corrections to real images of space.

EOS has considerable expertise in laser-generated artificial stars and AO systems, and for the GMT requirements has executed in-principle agreements with the Research School of Astronomy and Astrophysics at the Australian National University [ANU] to jointly develop the required AO systems.

EOS has a long history of cooperation with ANU. The EOS Space Research Centre is located at Mount Stromlo Observatory, and EOS and ANU jointly operate thin-film optical coating facilities in Canberra. To meet the substantial needs of this project and to facilitate coordination, EOS in March 2010 relocated its offices and laboratories from 111 Canberra Avenue Griffith ACT to Mount Stromlo.

Work has now commenced at the new Mount Stromlo site. This effort will be initially based on EOS' new guide star laser, which was developed in recent years for space surveillance applications.

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