



# ANNUAL REPORT 2019

**KLEOS SPACE S.A.**

(Formerly known as Kleos Space S.à r.l.)

ARBN 625 668 733 / RCS B215591

[WWW.KLEOS.SPACE](http://WWW.KLEOS.SPACE)



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# Corporate Directory

## Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

**Andrew Bowyer**

**Miles Ashcroft**

**David Christie**

**Peter Round**

## Principal place of business:

26, rue des Gaulois  
L-1618 Luxembourg  
Luxembourg

## Registered office:

Level 7, 330 Collins Street  
Melbourne VIC 3000  
Australia

## Auditor:

Deloitte Audit S.à r.l  
Luxembourg

## Website:

[www.kleos.space](http://www.kleos.space)

## Principal activities

The principal activity of the consolidated entity during the financial year was to undertake the development of the Space enabled, activity-based intelligence, data as service products. The consolidated entity aims to guard borders, protect assets and save lives by delivering global activity-based intelligence and geolocation as a service. The first Kleos Space satellite system, known as Kleos Scouting Mission ('KSM'), will deliver commercially available data and perform as a technology demonstration. KSM will be the keystone for a later global high capacity constellation. The Scouting Mission will deliver targeted daily services with the full constellation delivering near-real-time global observation.

The Company research and development personnel are involved in the development of Radio Frequency geolocation techniques, Radio Frequency signal analysis techniques, data science techniques including machine learning, satellite technologies, and data processing methodologies in order to provide a RF Geolocation Data as a Service series of products to information users in the defence and security Intelligence Surveillance and Reconnaissance market and as well to perform the necessary tests on the equipment for launching their own LEO nano-satellite Earth Observation.

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### **Dividends**

There were no dividends paid, recommended or declared during the current or previous financial period.

### **Matters subsequent to the end of the financial year**

On 18 February 2020, the Company secured a loan agreement of €3,410,000 (A\$5,500,000) with a Dubai-based Family Office, Winance Investment LLC ('Winance'). Proceeds of €1,857,353 (A\$3,025,000) were used to retire the existing loans outstanding.

On 20 February 2020, the Company issued 6,319,125 warrants to Winance with an exercise price of A\$0.38 and a three year term, on satisfying the conditions of the loan agreement.

The Company has agreed to issue a further 2,285,381 warrants to Winance with an exercise price of A\$0.38 and a three year term, subject to approval of shareholders at the Annual General Meeting.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Chairman's Statement

This year I write to you in the middle of what is virtually an international 'lock-down' resulting from the worldwide Coronavirus (COVID-19) crisis. This challenge, which threatens us all, is a clear demonstration of every nation's vulnerability and reinforces the need to use all means at our disposal to make the world as safe for us and our children as we can. More data and better ways to manage that data is the way forward and Kleos will be part of this critical activity.

An important element of the year has been getting to the launch. Last year at this time we were ready to go but, after very careful analysis, we decided to change launch provider. The orbit that our current provider, India's PSLV, will put us into has enormous commercial value with better coverage of the world's maritime hotspots and we will be in space sooner than had we not taken the decision. The satellites are in India and ready to go, so as soon as COVID-19 permits we will be in space.

The ground segment is also in great shape and the Kleos team continue to refine the algorithms and further develop the methodology for getting the data from space and into the hands of customers as fast as possible and with the highest level of accuracy achievable. The Radio Frequency (RF) engineers as well as the software team continue to operate at pace and have made huge advances in system design. We know that we will be quicker with the data and more accurate as a result. Quicker and better data means more valuable and more sought-after data. Our positivity and the way we work is key to every prospective buyer.

The best news possible is the thirst from a worldwide customer base for our products. During the year we have had pre-order successes in South America and in the USA. We spent 12 weeks in Colorado at the US Air Force Catalyst Accelerator building our presence and becoming a familiar part of the landscape. This activity builds on the interest we already have in Europe and in Asia. We are truly a worldwide operator and, I assure you, our customers cannot wait for data to flow.

Relationships with the Luxembourg Government are as strong as ever and the newly created Luxembourg Space Agency is a great resource. We continue to receive support at every level of the business. A great part of the ecology of Luxembourg is the quality of the available work force and we have taken advantage of that.

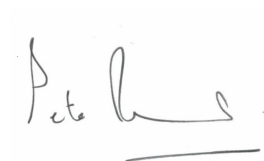
The last year has also seen the establishment of a further subsidiary, following on from Australia and UK, in the USA. This is a very exciting move as it allows direct interaction with defense and government agencies of the US at the right level and suitable classification. We have recruited some high profile and outstanding individuals to serve each of our regional markets.

Investors should be confident that we will launch as soon as government permits. All delays have been outside the control of the Company. Nevertheless, the management team have performed magnificently to overcome the challenges present in every space enterprise before launch and, right now, to mitigate the challenges from the worldwide effects of COVID-19. Next will be the expansion that will follow launch and revenue. Our market is almost unlimited and our data, once gathered, can be used time after time. This remains an exciting opportunity.

We hope that all our investors, clients, contractors and staff are safe and will weather the “Corona” storm.

Kleos is in good shape to start delivering real data to a hungry customer base and we are looking forward to the next exciting year.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter Round', with a horizontal line underneath.

**Air Commodore Peter Round**

Chairman



# Review of operations by Chief Executive Officer

Dear Fellow Shareholders,

It is with pride that I report the considerable achievements made by the team throughout 2019 at Kleos Space S. A. ('Kleos' or the 'Company') having completed our 1st full year of quotation on the Australian Securities Exchange ('ASX').

In summary, the Company activities were:

- **Satellites in Orbit – 90% Complete**

The four Kleos Scouting Mission satellites are at the launch site, checked out and tested, awaiting launch on PSLV C49 (a launch vehicle operated by the Indian Space Research Organisation). Despite the delay to our planned launch schedule, the programme to deliver Satellites in the time that has been achieved is extremely rapid when compared to more traditional Space activities.

- **Initial Product Development – 90% Complete**

The initial product development – a Data-as-a-Service product, providing geolocated radio transmissions via an API to satisfy contracts. The data product is produced by aligning the information collected by our four satellites and processed through Kleos' proprietary algorithms.

- **Commercial Traction**

Growing Rapidly - with well over 100 active opportunities across the entire pipeline, the Company has demonstrated without any doubt the commercial viability of the data products.

## Kleos Scouting Mission and Data Product Development

In response to many queries, I provide a quasi-technical explanation of the Kleos Scouting Mission (KSM) will geolocate specific Radio Frequency (RF) transmissions in the Very High Frequency (VHF) band. KSM comprises a cluster of four spacecraft (S/C) flying in a Low Earth Orbit (LEO) at an insertion altitude of 575 km and inclination of 37° (to the equatorial plane). The geolocated RF transmissions may be used as a means of generating data sets for reconnaissance, asset-tracking and surveillance purposes.

A key target market for our initial data product is the maritime domain where tracking systems typically require the vessel to be broadcasting location using Automatic Identification System (AIS), but our Scouting spacecraft passively detect and geolocate any RF transmissions a vessel may transmit in the maritime VHF band. The geolocation algorithm uses multilateration techniques based on receiving synchronous RF data (time aligned) captured directly from the radio on each spacecraft.



Geolocated RF Locations (our data products) are securely provided to the end customer using a Representational State Transfer (REST) Application Programming Interface (API). Requests to the REST API can be made from any authorised internet connection and are provided in JavaScript Object Notation (JSON) files designed to be read programmatically.

After challenges with launch timeline with our original launch partner RocketLab, the Board decided in August to change to a PSLV launch, a highly trusted launch capability operated by the Indian Space Research Organisation (ISRO). The most significant element to this change of launch was to our orbit, changing to 37-degree inclined orbit that will provide up to 4.5 times more data than the previous orbit over world hot spots including the Strait of Hormuz, South China Sea, Australian Coast, Southern US Coast and both East & Western African Coast further increasing our commercial attractiveness.

GomSpace, our satellite partner delivered our first four satellites – these were successfully checked, validated and tested for compliance and functionality.

Activity on mission post end of 2019; after a successful check-out in India the four Kleos satellites remain safe and secure in at the Sriharikota Range awaiting launch on PSLV C49. The Indian Government is taking all the steps it can to control the COVID-19 pandemic in their country, including a large scale lock down, which is restricting activity in many areas of the Indian economy including space launch as is the case with other countries around the world.

### **Business Development:**

Throughout 2019 there has been global traction delivered by our Business Development teams, with a (unnamed due to confidentiality) Nation State as well as international pre-orders or commercial agreements being signed with companies in:

- US
- Brazil
- Luxembourg
- France
- UK

Developments that are of particular note were the participation in the US Air Force Research Laboratory Space Vehicle Directorates Catalyst Space Accelerator program and the signing of an agreement with L3Harris to place the Kleos product suite on their GSA Earth Observation Solutions (EOS) Schedule and then a further collaboration to prepare and present mission scenario demonstrations to the National Geospatial-Intelligence Agency.

### Further:

I am honoured and privileged to publicly recognise and thank our faithful and loyal supporters and stakeholders – employees, advisors, shareholders, investors, bankers, brokers who feel every bump in the road to launch as keenly as we do.

2019 saw Kleos Space transition into an international Company supported by leaders in their fields in Europe, South America and North America. To have attracted such talent speaks volumes about the opportunities in front of us. Progressing through 2020; the overwhelming feeling across the Board and Management team is one of being poised on the edge of massive accelerated growth, our data is wanted, our technology innovative, investors are extremely enthusiastic.

2019 was about building traction, about creating the opportunity that has grown and grown, and despite the unforeseen challenges created by the COVID-19 pandemic 2020 will deliver launch, revenues, delivery and expansion.

As always, I, with our Board and the Management team thank you for your continued support.



**Andrew Bowyer**

CEO

# ADDITIONAL ASX INFORMATION

## ADDITIONAL ASX INFORMATION

The shareholder information set out below was applicable as at 8 April 2020.

The Company has securities listed for quotation in the form of CHESS Depositary Interests (CDIs) on the Australian Securities Exchange (ASX) that trade under the code "KSS". The holders of the CDIs obtain a beneficial ownership in a share. Each CDI is equivalent to one ordinary share. The Company's share capital is as follows:

Type of Security	Number of Securities
Total number of issued shares <sup>(1)</sup>	106,627,500
Total number of CDIs assuming all shares held as CDIs	106,627,500

<sup>(1)</sup> Includes Shares held by CHESS Depositary Nominees Pty Limited (CDN)

## SUBSTANTIAL HOLDERS (Listing Rule 4.10.4)

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 7 April 2020 are:

Name	No of equity securities	% of voting power
LTL CAPITAL PTY LTD	17,294,453 CDIs	16.22%
STERLING VENTURES PTY LTD (2)	3,274,215 CDIs	3.07%
MAGNA PARVA LIMITED	25,000,000 CDIs	23.45%
MILES ASHCROFT	25,125,000 CDIs (3)	23.56%
ANDREW BOWYER	25,125,000 CDIs (3)	23.56%

(2) An associate of the substantial holder LTL Capital Pty Ltd. (3) Including shares held by Magna Parva a company controlled by Andrew Bowyer and Miles Ashcroft

## VOTING RIGHTS (Listing Rule 4.10.6)

If holders of CDIs wish to attend the Company's general meeting, they will be able to do so. Under the ASX Listing Rules and the ASX Settlement Operating Rules, the Company as an issuer of CDIs must allow CDI holders to attend any meeting of the holders of Shares unless relevant Luxembourg law at the time of the meeting prevents CDI holders from attending those meetings.

In order to vote at such meetings, CDI holders have the following options:  
instructing CDN, as the legal owner, to vote the Shares underlying their CDIs in a particular manner. A voting instruction form will be sent to CDI holders with the notice of meeting or proxy statement for the

meeting and this must be completed and returned to the Company's Share Registry prior to the meeting;  
or

informing the Company that they wish to nominate themselves or another person to be appointed as CDN's proxy with respect to their Shares underlying the CDIs for the purposes of attending and voting at the general meeting; or

converting their CDIs into a holding of Shares and voting these at the meeting (however, if thereafter the former CDI holder wishes to sell their investment on ASX it would be necessary to convert the Shares back to CDIs). In order to vote in person, the conversion must be completed prior to the record date for the meeting. See above for further information regarding the conversion process.

As holders of CDIs will not appear on the Company's share register as the legal holders of the Shares, they will not be entitled to vote at Shareholder meetings unless one of the above steps is undertaken.

As each CDI represents one Share, a CDI holder will be entitled to one vote for every one CDI they hold. Proxy forms, CDI voting instruction forms and details of these alternatives will be included in each notice of meeting sent to CDI holders by the Company.

These voting rights exist only under the ASX Settlement Operating Rules, rather than Luxembourg law of 10 August 1915 on commercial companies, as amended. Since CDN is the legal holder of applicable shares, the holders of CDIs do not have any directly enforceable rights under the Company's Articles of Association.

There are no voting rights attached to any of the options that the Company currently has on issue. Upon exercise of these options, the CDIs issued will have the same voting rights as existing CDIs.

#### **DISTRIBUTION OF EQUITY SECURITIES (Listing Rules 4.10.5, 4.10.7 and 4.10.8)**

<b>Holding Ranges</b>	<b>Quoted CDI holders</b>	<b>Unquoted CDI holders</b>	<b>Options</b>	<b>Performance Rights</b>
1 to 1,000	24	0	0	0
1,001 to 5,000	192	0	0	0
5,001 to 10,000	156	0	0	0
10,001 to 100,000	292	7	11	0
100,001 and Over	100	7	12	4
Totals	764	14	23	4
Holding less than a marketable parcel	0	0	0	0

## TWENTY LARGEST SHAREHOLDERS (Listing Rule 4.10.9)

The names of the twenty largest holders of each class of quoted securities are listed below:

### CDIs

Holder Name	Holder	%IC
MAGNA PARVA LIMITED	25,000,000	23.45
LTL CAPITAL PTY LTD	14,609,661	13.70
MISS BIANCA SILVER	4,403,669	4.13
TYLER CORPORATION PTY LTD	3,470,000	3.25
MR BRADLEY SAXBY	3,470,000	3.25
STERLING VENTURE HOLDINGS PTY LTD	2,749,215	2.58
MS JANET HEATHER CAMERON	2,255,000	2.11
JBWERE (NZ) NOMINEES LIMITED	2,237,754	2.10
GAKS INVESTMENT HOLDINGS	1,873,424	1.76
LTL CAPITAL PTY LTD	1,678,602	1.57
CS THIRD NOMINEES PTY LIMITED	1,336,194	1.25
JAMBER INVESTMENTS PTY LTD	1,075,360	1.01
EVANEU (NOMINEES) PTY LTD	1,054,755	0.99
PETER ROUND	1,000,000	0.94
LTL CAPITAL PTY LTD	942,390	0.88
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	883,443	0.83
MR EVAN NEUMANN & MR RICKY NEUMANN	800,000	0.75
MR GORDON MARK CRANE & MRS ELIZABETH MARY CRANE	750,000	0.70
CITICORP NOMINEES PTY LIMITED	704,587	0.66
VILY & HANNA VEINGOLD PTY LTD	700,000	0.66
SILKSHORE HOLDINGS PTY LTD	700,000	0.66
RIVERGRADE PTY LTD	650,000	0.61
IAN & RUBY FOK SUPER PTY LTD	650,000	0.61
<b>Totals: Top 20 holders of Quoted CDI's</b>	<b>72,994,054</b>	<b>68.46</b>
<b>Balance of register</b>	<b>33,633,446</b>	<b>31.54</b>
<b>Grand total</b>	<b>106,627,500</b>	<b>100.00</b>

## RESTRICTED SECURITIES (Listing Rule 4.10.14)

As at 8 April 2020 the following securities are subject to escrow:

- 1,385,000 quoted CDIs escrowed until 24 August 2020
- 35,555,000 unquoted CDIs escrowed until 24 August 2020
- 4,000,000 Options expiring 17 August 2021 @ \$0.30 escrowed until 24 August 2020
- 2,900,000 Options expiring 11 September 2022 @ \$0.40
- 725,000 Options expiring 19 December 2022 @ \$0.40
- 500,000 Performance Rights vested 29 March 2019 @ \$0.00 escrowed until 24 August 2020
- 8,500,000 Performance Rights vested 24 February 2020 @ \$0.00 escrowed until 24 August 2020

- 9,500,000 Performance Rights expiring 24 August 2020 @ \$0.00 escrowed until 24 August 2020
- 6,319,125 Options (restricted) expiring 18 February 2023 @ \$0.38
- 200,000 authorised but unissued shares

## UNQUOTED SECURITIES (Listing Rules 4.10.5 and 4.10.16)

As at 8 April 2020, the following unquoted securities are on issue:

### **4,000,000 Options expiring 17 August 2021 @ \$0.30 – 14 Holders**

*Holders with more than 20%*

Holder Name	Holding	% IC
LTL Capital Pty Ltd	1,320,000	33.00%

### **2,900,000 Options expiring 11 September 2022 @ \$0.40 – 7 Holders**

*Holders with more than 20%*

Holder Name	Holding	% IC
Asenna Wealth Solutions Pty Ltd	910,000	31.38%
Evolution Capital Advisors Pty Ltd	750,000	25.86%

### **725,000 Options expiring 19 December 2022 @ \$0.40 – 2 Holders**

*Holders with more than 20%*

Holder Name	Holding	% IC
Jamber Investments Pty Ltd	250,000	34.48%
Evolution Capital Advisors Pty Ltd	475,000	65.52%

### **500,000 Performance Rights vested 29 March 2019 @ \$0.00 – 1 Holder**

*Holders with more than 20%*

Holder Name	Holding	% IC
Mr David Christie	500,000	100.00%

### **8,500,000 Performance Rights vested 24 February 2020 @ \$0.00 – 2 Holders**

*Holders with more than 20%*

Holder Name	Holding	% IC
Mr Andrew Bowyer	4,250,000	50.00%
Mr Miles Ashcroft	4,250,000	50.00%

### **9,500,000 Performance Rights expiring 24 August 2020 @ \$0.00 – 3 Holders**

*Holders with more than 20%*

Holder Name	Holding	% IC
Mr Andrew Bowyer	4,250,000	44.74%
Mr Miles Ashcroft	4,250,000	44.74%

### **6,319,125 Options vesting 11 February 2023 @ \$0.38– 1 Holder**

*Holders with more than 20%*

Holder Name	Holding	% IC
Winance Investment LLC	6,319,125	100.00%

**200,000 authorised but unissued shares – 1 Holder**

**Holders with more than 20%**

Holder Name	Holding	% IC
MMR Corporate Pty Ltd	200,000	100.00%

**ON-MARKET BUY BACK (4.10.18)**

There is currently no on-market buyback program.

**ASX LISTING RULE 4.10.19**

The Company has used cash and cash equivalents held at the time of listing, in a way consistent with its business objectives.



# Corporate Governance Statement

The Board of Directors of Kleos Space S.A. (KSS or the Company) is responsible for the corporate governance of the Company and its subsidiaries. The Board guides and monitors the business and affairs of KSS on behalf of the Shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the 4th Edition ASX Corporate Governance Council's Principles and Recommendations.

## PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

	Corporate Governance Council Recommendation	Compliance	Disclosure
1.1	A listed entity should disclose: a. the respective roles and responsibilities of its board and management; and b. those matters expressly reserved to the board and those delegated to management.	Complies	The respective roles and responsibilities of the Board and management are defined under the Board Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon officers of the Company.
1.2	A listed entity should: a. undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director and b. provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Complies	The process for selection, appointment, and re-appointment of directors is detailed in the Remuneration and Nomination Committee Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . Under the Remuneration and Nomination Committee Charter, shareholders are required to be provided with all material information in the Committee's possession relevant to a decision on whether or not to elect or re-elect a director including, biographical details, qualifications, a statement as to whether the Board supports the nomination of the director and the degree of independence of the director and, details of any existing directorships held.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Complies	The Company requires each director and senior executive to execute a written agreement setting out the terms of their appointment.

1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Complies	The Company have engaged third party company secretary Mertons Corporate Services Pty Ltd (Mertons) to conduct their company secretarial functions and report directly to the chair of the Board, Peter Round. The role of the company secretary will be fulfilled by Mertons. The role of the company secretary is outlined in the Board Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> .
1.5	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a diversity policy;</li> <li>b. through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and</li> <li>c. disclose in relation to each reporting period <ul style="list-style-type: none"> <li>1. the measurable objectives for that period to achieve gender diversity</li> <li>2. the entity's progress towards achieving those objectives; and</li> <li>3. either: <ul style="list-style-type: none"> <li>A. the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or</li> <li>B. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</li> </ul> </li> </ul> </li> </ul>	Complies in part	The Company has adopted a Diversity Policy, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . The Diversity Policy requires the Board to establish measurable objectives to assist the Company to achieve gender diversity and to assess the Company's progress in achieving these objectives. The Remuneration and Nomination Committee will report to the Board on the Company's progress towards achieving its measurable objectives each year. The Company has not yet adopted measurable objectives. The Board has considered the requirements and it intends to address these requirements at an appropriate time as the Company grows, and increases in size and activity.
1.6	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</li> <li>b. disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</li> </ul>	Complies in part	Under the Board Charter, the Board is required, at least once per year, with the advice and assistance of the Remuneration and Nomination Committee, to review and evaluate the performance of the Board, its Committees and individual directors against the relevant charters, corporate governance policies, and agreed goals and objectives (as applicable).  The Board has considered the requirements and does not believe a performance evaluation is warranted at this stage of the Company's development, however it intends to address these requirements at an appropriate time in the future.

1.7	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of its senior executives at least once every reporting period; and</li> <li>b. disclose, for each reporting period, whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</li> </ul>	Complies in part	<p>Under the Board Charter, the Board (with the advice and assistance of the Remuneration and Nomination Committee) is responsible for reviewing and approving the performance of the members of the executive leadership team.</p> <p>The Board has considered the requirements and does not believe any additional disclosure is warranted at this stage of the Company's development, however it intends to address these requirements at an appropriate time in the future.</p>
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## PRINCIPLE 2 – STRUCTURE THE BOARD TO BE EFFECTIVE AND ADD VALUE

2.1	<p>The board of a listed entity should:</p> <ol style="list-style-type: none"> <li>have a nomination committee which: <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent directors; and</li> <li>is chaired by an independent director,</li> </ol> and disclose: <ol style="list-style-type: none"> <li>the charter of the committee,</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> <li>if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</li> </ol>	Complies in part	<p>The Board has established a Remuneration and Nomination Committee to oversee the selection and appointment practices of the Company.</p> <p>The Remuneration and Nomination Committee is governed by a Remuneration and Nomination Committee Charter, which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p> <p>The Remuneration and Nomination Committee consists of three members, Peter Round, Andy Bowyer and David Christie. David Christie is an independent non-executive director. The Board is mindful of the recommendation that the Remuneration and Nomination Committee be comprised of a majority of independent directors. Notwithstanding this, the Board is satisfied that the current composition of the Remuneration and Nomination Committee is appropriate in the Company's circumstances.</p> <p>The Remuneration and Nomination Committee is chaired by David Christie, who is an independent director for ASX purposes. The Remuneration and Nomination Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or to vote on a matter regarding, his or her election, re-election, or removal.</p> <p>The Remuneration and Nomination Committee met twice throughout the period. All members (David Christie, Peter Round and Andy Bowyer) attended both meetings.</p>
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2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.	Complies in part	<p>The Company's Remuneration and Nomination Committee is responsible for regularly reviewing the size, composition and skills of the Board to ensure that the Board is able to discharge its duties and responsibilities effectively and to identify any gaps in the skills or experience of the Board.</p> <p>The Board has considered the requirements and does not believe a the disclosure of Board skills beyond current disclosure is warranted at this stage of the Company's development, however it intends to address these requirements at an appropriate time in the future.</p>
2.3	<p>A listed entity should disclose:</p> <ol style="list-style-type: none"> <li>the names of the directors considered by the board to be independent directors;</li> <li>if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, or relationship in question and an explanation of why the board is of that opinion; and</li> <li>the length of service of each director.</li> </ol>	Complies	<p>The Company assesses the independence of its directors against the requirements for independence set out in the Board Charter which reflect the independence criteria set out in the ASX Corporate Governance Principles.</p> <p>Director independence is initially assessed upon each director's appointment and reviewed each year, or as required when a new personal interest or conflict of interest is disclosed. Directors are required to disclose all actual or potential conflicts of interest on an ongoing basis.</p> <p>David Christie is considered by the Board to be independent for ASX purposes.</p> <p>Andy Bowyer is not considered to be independent due to his executive role as CEO with the Company.</p> <p>Peter Round is not considered independent due to his role as an executive member of the board.</p> <p>Miles Ashcroft is not considered independent due to his role as an executive member of the board.</p> <p>The Company believes that their extensive experience is invaluable and outweighs any perceived lack of independence.</p> <p>The length of service of each director on the Board is as laid out in this report</p>

2.4	A majority of the board of a listed entity should be independent directors.	Does not comply	<p>The Company has four directors and one of these is considered independent for ASX purposes. The Board believes that the current mix of directors is appropriate for the Company's business and circumstances and is in the best interests of shareholders as a whole. Further, the Board believes that, the Board as a whole is not hindered in its ability to exercise independent view and judgement. The Board is mindful of the recommendation that a majority of the Board should be independent directors and will continue to take this into consideration when considering the future nomination, election or re-election of directors to the Board.</p>
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Complies in part	<p>The Chairman of the Board is Peter Round. Peter Round is not considered an independent director for ASX purposes. The roles of Chairman and CEO are exercised by two separate individuals. The role of CEO is held by Andy Bowyer.</p>
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.	Complies	<p>The Company's Remuneration and Nomination Committee is responsible for establishing and facilitating induction for new directors and providing new directors with all such information and advice which may be considered necessary or desirable for the director to commence their appointment to the Board. The Company's Remuneration and Nomination Committee is also responsible for providing directors with access to continuing education for directors for the purpose of updating and maintaining their skills and knowledge to perform their roles as directors effectively. A copy of the Nomination Committee Charter is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>

### PRINCIPLE 3 – INSTIL A CULTURE OF ACTING ETHICALLY AND RESPONSIBLY

3.1	A listed entity should articulate and disclose its values.	Complies	
3.2	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a code of conduct for its directors, senior executives and employees; and</li> <li>b. ensure that the board or a committee of the board is informed of any material breaches of that code.</li> </ul>	Complies	The Company has adopted a Code of Conduct which applies to all directors, officers and employees of the Company as well as a Securities Trading Policy. Each of these has been prepared having regard to the ASX Corporate Governance Principles and Recommendations and is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> .
3.3	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a whistleblower policy; and</li> <li>b. ensure that the board or a committee of the board is informed of any material breaches incidents reported under that policy.</li> </ul>	Complies in Part	Draft policy under consideration by the Board
3.4	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose an anti-bribery and corruption policy; and</li> <li>b. ensure that the board or a committee of the board is informed of any material breaches of that policy.</li> </ul>	Complies in Part	Draft policy under consideration by the Board



## PRINCIPLE 4 – SAFEGUARD THE INTEGRITY OF CORPORATE REPORTS

4.1	<p>The board of a listed entity should:</p> <p>a. have an audit committee which:</p> <ol style="list-style-type: none"> <li>1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, who is not the chair of the board; and disclose:</li> <li>3. the charter of the committee;</li> <li>4. the relevant qualifications and experience of the members of the committee; and</li> <li>5. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>b. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	Complies in part	<p>The Company has established an Audit and Risk Management Committee to oversee the management of financial and internal risks.</p> <p>The Audit and Risk Management Committee consists of three members, Peter Round and Andy Bowyer who are executive directors and David Christie who is a non-executive and independent director..</p> <p>The Committee is chaired by Peter Round who is not an independent director.</p> <p>Whilst a majority of the members of the Audit and Risk Management Committee are not independent directors for ASX purposes, the Board believes that the composition and skills of the members of the Audit and Risk Management Committee are appropriate for the Company, and will continue to take this into consideration when considering future membership.</p> <p>The Audit and Risk Management Committee is governed by an Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p> <p>The Audit and Risk Management Committee met five times throughout the period. All members (Peter Round, Andrew Boyer and David Christie) attended all five meetings.</p>
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4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Complies	Prior to the Board approving the Company's financial statements, the Board will ensure that it receives from the CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained, that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.	Complies	Subject to Board review and approval at quarterly Board meetings or circular resolution.

## PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

5.1	A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	Complies	<p>The Company is committed to taking a proactive approach to continuous disclosure and creating a culture within the Company that promotes and facilitates compliance with the Company's continuous disclosure obligations.</p> <p>The Company has adopted a written policy to ensure compliance with their ASX Listing Rule disclosure obligations. A copy of the Company's Continuous Disclosure Policy is available on its website at <a href="http://kleos.space/">http://kleos.space/</a>. The Company has appointed its company secretary and local agent as the reporting officer and the ASX liaison officer. However, the Board retains ultimate responsibility for compliance with the Company's continuous disclosure obligations.</p>
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	Complies	The Company has all director's email addresses recorded with the ASX to automatically receive notification and copies of all ASX releases made to the market.

5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	Complies	The Company discloses all investor or analyst presentations to the market prior to presenting the information in accordance with its Continuous Disclosure Policy.
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## PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS

6.1	A listed entity should provide information about itself and its governance to investors via its website.	Complies	The Company provides investors with comprehensive and timely access to information about itself and its governance on its website at <a href="http://kleos.space/">http://kleos.space/</a> , including copies of the Company's Certificate of Incorporation and Bylaws, Board and committee charters and key corporate governance policies, copies of all material information lodged with ASX, copies of all announcements, briefings and speeches made to the market, analysts or the media, press releases or announcements made by the Company, financial data for the Company, the Company's annual reports and notices of shareholder meetings. Further details are set out in the Company's Shareholder Communication Policy.
6.2	A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	Complies	The Company has adopted a Shareholder Communications Policy for shareholders wishing to communicate with the Board, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . The Company seeks to utilise numerous modes of communication, including electronic communication to ensure that its communication with shareholders is frequent, clear and accessible.
6.3	A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	Complies	The Company has adopted a Shareholder Communications Policy to facilitate and encourage shareholder participation at meetings of security holders.  All shareholders are invited to attend the Company's annual meetings either in person or by representative. Shareholders have an opportunity to submit questions to the Board or the Company's external auditor.

6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than a show of hands.	Complies	Subject to Luxembourg incorporated company requirements, resolutions at a meeting of shareholders are decided by way of a Poll.
6.5	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically	Complies	The Company encourages shareholders to submit questions or requests for information directly to the Company via the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . The Company also encourages shareholders to submit any questions related to their shareholdings in the Company to the Company's share registry with the share registry's contact details included in the Company's Shareholder Communication Policy, including details for electronic communication.

## PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1	<p>The board of a listed entity should:</p> <ol style="list-style-type: none"> <li>have a committee or committees to oversee risk, each of which: <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent directors; and</li> <li>is chaired by an independent director, and disclose:</li> <li>the charter of the committee;</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> <li>if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</li> </ol>	Complies in part	<p>In conjunction with the Company's other corporate governance policies, the Company has adopted a Risk Management Policy which is designed to assist the Company to identify, assess, monitor and manage its risk, including any material changes to its risk profile.</p> <p>The Board has delegated responsibility for the day-to day oversight and management of the Company's risk profile to the Audit and Risk Management Committee.</p> <p>The Audit and Risk Management Committee is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes and provides regular reports to the Board on these matters.</p> <p>The Audit and Risk Management Committee consists of three members, Peter Round, Andy Bowyer and David Christie. The Committee is comprised of executive and non-executive directors with David Christie being the only independent director. The Committee is chaired by Peter Round who is not an independent director.</p> <p>Whilst a majority of the members are not independent directors for ASX purposes, the Board believes that the composition and skills of the members of the Audit and Risk Management Committee are appropriate for the Company.</p> <p>The Board has conferred responsibility on the Company's management to develop and maintain a risk management programme and internal control systems which identify material risks in light of the day to day needs of the Company.</p> <p>The Board is responsible for oversight of the overall system of internal control and provides final consideration and direction on any risk management issues.</p> <p>The Audit and Risk Management Committee met five times throughout the period. All members (David Christie, Peter Round and Andy Bowyer) attended all five meetings.</p> <p>A copy of the Company's Risk Management Policy is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>
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7.2	<p>The board or a committee of the board should:</p> <ol style="list-style-type: none"> <li>review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board; and</li> <li>disclose, in relation to each reporting period, whether such a review has taken place.</li> </ol>	Complies	<p>The Audit and Risk Management Committee will annually review and evaluate the effectiveness of its risk management framework to ensure that its internal control systems and processes are monitored and updated on an ongoing basis.</p> <p>The division of responsibility between the Board, Audit and Risk Management Committee and management aims to ensure that specific responsibilities for risk management are clearly communicated and understood.</p> <p>The Risk Management Policy provides for regular reporting to the Board which supplements the Company's quality system, complaint handling processes and standard operating procedures which are all designed to address various forms of risks.</p> <p>A review took place within the reporting period.</p>
7.3	<p>A listed entity should disclose:</p> <ol style="list-style-type: none"> <li>if it has an internal audit function, how the function is structured and what role it performs; or</li> <li>if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its governance, risk management and internal control processes.</li> </ol>	Does not comply	<p>Due to the Company's current size and business circumstances, the Company does not have an internal audit function. The Company will reconsider this decision as appropriate and appoint an internal auditor if, and when, the Company considers this necessary.</p> <p>Under the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control process.</p>
7.4	<p>A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.</p>	Complies	<p>The Company does not consider that it has any material exposure to economic, environmental and social sustainability risks. If the Company determines in the future that it has any material exposure to economic, environmental and social sustainability, the Company will provide details in its future annual reports.</p>

## PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

8.1	<p>The board of a listed entity should:</p> <ol style="list-style-type: none"> <li>have a remuneration committee which: <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent directors; and</li> <li>is chaired by an independent director, and disclose:</li> <li>the charter of the committee;</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> <li>if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</li> </ol>	Complies in part	<p>The Company has a Remuneration and Nomination Committee, which is governed by a Remuneration and Nomination Committee Charter. A copy of the Remuneration and Nomination Committee Charter is available on the website at <a href="http://kleos.space/">http://kleos.space/</a>.</p> <p>The Remuneration and Nomination Committee consists of three members, Peter Round, Andy Bowyer and David Christie. David Christie is an independent non-executive director.</p> <p>Further, the Remuneration and Nomination Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration.</p> <p>The Remuneration and Nomination Committee is chaired by David Christie, who is an independent director for ASX purposes.</p> <p>The Remuneration and Nomination Committee met twice throughout the period. All members (David Christie, Peter Round and Andy Bowyer) attended both meetings.</p>
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8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Complies	<p>The Remuneration and Nomination Committee is responsible for setting and reviewing the policies and practices of the Company regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives. The company's remuneration practice for executive directors considers a number of factors and is designed to have regard to the director's experience and the nature and complexity of their work in order to pay a competitive salary, in line with comparable companies, that attracts and retains directors of the highest quality and to reflect the director's personal performance.</p> <p>The remuneration of non-executive directors is a matter for the executive directors and no director is involved in any decisions as to their own remuneration.</p> <p>Each executive director has a contract with the Company. Executive directors' salaries are reviewed annually in line with the remuneration reviews for all other group employees.</p>
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <ol style="list-style-type: none"> <li>have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</li> <li>disclose that policy or a summary of it.</li> </ol>	Complies	<p>The Company has adopted a Securities Trading Policy which provides that participants must not, without prior written approval by the relevant person specified in the Policy, engage in hedging arrangements, deal in derivatives or enter into other arrangements which vary economic risk related to the Company's securities.</p> <p>A copy of the Securities Trading Policy is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>

Unless otherwise indicated, KSS's corporate governance practices were in place for the financial year ended 31 December 2019 and to the date of signing the Directors' Report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by the Company, refer to our website <https://kleos.space/>

## Board of Directors



### Air Cdre Peter Round

Chairman and Executive Director

RAF Air Commodore, expert in EU Defence Issues, military affairs and has lead multiple multi-million pound contracts within the Defence industry. Internationally renowned strategic executive with experience in the US, EU and NATO



### Andrew Bowyer

CEO

15 years' heritage delivering complex Space contracts, including missions to Mars and Mercury as co-founder of Magna Parva. Broad commercial and business development skills centred around major space mission providers (European Space Agency).

## Board of Directors



### Miles Ashcroft

Chief Technical Officer

Extensive technical experience delivering technically ground breaking and high value Space hardware to multiple international space agencies as co-founder of Magna Parva.



### David Christie

Non-Executive Director

Co-Founder & Chief Operating Officer for Wilson AI, an Artificial Intelligence company based in Melbourne, Australia. Prior to this he was the Chief Strategy Officer, General Counsel and Company Secretary for iSelect (ASX: ISU). Over 20 years experience at a Senior Executive level with global responsibility for all legal affairs, ASX governance, compliance, commercial / corporate, litigation and intellectual property matters

## Review of operations

The loss for the consolidated entity after providing for income tax amounted to €3,503,298 (31 December 2018: loss of €2,201,904).

The loss for the Company after providing for income tax amounted to €2,849,375 (31 December 2018: loss of €2,101,103).

The key categories of expenditure in the consolidated entity and the Company for the financial year were remuneration expenses, consulting and professional fees, research and development costs, and general administrative expenses.

The principal source of income for the consolidated entity during the year continued to be the European Space Agency contract. The categories of expenditure in the consolidated entity for the year were remuneration expenses, consulting and professional fees, research and development costs, and general administrative expenses.

## Significant changes in the state of affairs

On 6 September 2019 the Company entered into a convertible note deed poll under which it issued secured convertible notes. The Company issued notes with an aggregate face value of A\$2,200,000. The notes bear interest at a 20% annual rate and had a maturity date of 28 February 2020. The holders of the convertible notes received 1,000,000 options and the lead manager received an additional 1,900,000 options. All options issued expire 6 September 2022 with an exercise price of A\$0.40.

On 7 October 2019, the Company incorporated a wholly-owned USA subsidiary, Kleos Space LLC to develop business development opportunities.

On 19 December 2019 the Company elected to subscribe for an additional aggregate face value of A\$550,000 under the convertible note deed poll entered into 12 September 2019. The notes bear interest at a 20% annual rate and had a maturity date of 13 May 2020. The holders of the convertible notes received 250,000 options and the lead manager received an additional 475,000 options. All options issued expire 19 December 2022 with an exercise price of A\$0.40.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

## Likely developments and expected results of operations

After the delay of the planned 2019 launch, the consolidated entity will deliver the launch of the first cluster of four satellites and to use the data collected by the satellites to begin generating revenue.

Kleos Space satellites provide a capability to sense and geolocate transmitters (VHF for Kleos Scouting Mission) without relying on geolocation by other means such as GPS or AIS (automatic identification

system). Each of our Scouting satellites receives signals from the ground that have several measurable parameters enabling the location of the transmitter and with more satellites we collect more data more often.

Kleos Space data is a commercial, restriction free geospatial data set collected from Space to enable disruption of illegal fishing, piracy, smuggling, trafficking and help with border monitoring to deliver enhanced situational awareness for a wide variety of maritime operations.

## Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law, Luxembourg law and any law and regulations applicable to the European Union.

The consolidated entity has obtained a licence, with specific assignments for the use of frequencies or radio channels for both transmission, and reception pursuant to the law of 30 May 2005 on the organisation and management of radio frequency spectrum. The frequency assignments are recorded by the Luxembourg Institute of Regulators, Institut Luxembourgeois de Régulation ('ILR') in a public file called "register of frequencies". The consolidated entity has obtained from the ILR a licence for the use of electronic communications networks/services. From an international regulatory perspective, the consolidated entity has registered with the International Telecommunication Union ('ITU').

## CDIs under option

Unissued CDIs of the Company under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price A\$	Number under option
24/08/2018	17/08/2021	0.3000	4,000,000
06/09/2019	06/09/2022	0.4000	1,000,000
06/09/2019	06/09/2022	0.4000	1,900,000
19/12/2019	19/12/2022	0.4000	250,000
19/12/2019	19/12/2022	0.4000	475,000
			7,625,000

## CDIs under performance rights

Unissued CDIs of the Company under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
29/05/2018	26/03/2019*	€0.0000	500,000
29/05/2018	29/11/2019*	€0.0000	8,500,000
29/05/2018	29/05/2020	€0.0000	9,500,000
			18,500,000

\*Vested during the year ended 31 December 2019.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any CDI issue of the Company or of any other body corporate.

### CDIs under warrants

Unissued CDIs of the Company under warrants at the date of this report are as follows:

Grant date	Expiry date	Exercise price A\$	Number under warrants
20/02/2020*	20/02/2023	0.3800	6,319,125

\*Warrants issued to Winance on satisfying the conditions of the loan agreement as announced on ASX on 20 February 2020.

The Company has agreed to issue a further 2,285,381 warrants to Winance with an exercise price of A\$0.38 and a three year term, subject to approval of shareholders at the Annual General Meeting.

### CDIs issued on the exercise of options

There were no CDIs of the Company issued on the exercise of options during the year ended 31 December 2019 and up to the date of this report.

### CDIs issued on the exercise of performance rights

There were no CDIs of the Company issued on the exercise of performance rights during the year ended 31 December 2019 and up to the date of this report.

### CDIs issued on the exercise of warrants

There were no CDIs of the Company issued on the exercise of warrants during the year ended 31 December 2019 and up to the date of this report.

### Acquisition by the Company of its own stocks and shares

In the financial year the Company has not acquired any of its own shares.

### Branches

The Company has no branches at the end of the financial year.

### Research and development activities

The Company made investments in research and development in the financial year of €196,362 (2018: €113,932) recorded under the heading Research and development expenses in the Statement of profit or loss and other comprehensive income.

### Allocation of the loss of the financial year

The Company resolved to carry forward the loss for the year ended 31 December 2019 amounting to €3,503,298.

## Financial risk management

The consolidated entity's activities expose it to minimal financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risks to which the consolidated entity is exposed. These methods include ageing analysis for credit risk and sensitivity analysis in the case of interest rate risk.

## Related party transactions

During the year ended 31 December 2019, the Company made payments for salaries on behalf of the subsidiary, Kleos Space Ltd, amounting to €666,944 (2018: €88,147). An amount of €754,976 was due from the subsidiary as at 31 December 2019 (2018: €88,032).

During the year ended 31 December 2017, the Company had received a loan from its immediate parent entity, Magna Marva Limited. On 28 May 2018, the loan was converted to 1,540,000 CDIs in the Company.

## Indemnity and insurance of officers

The Company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

## Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 9 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors.

The directors are of the opinion that the services as disclosed in note 9 to the financial statements do not compromise the external auditor's independence requirements for the following reasons:



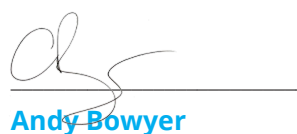
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in IESBA Code of Ethics for Professional Accountants issued by the International Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

## Auditor

Deloitte Audit S.à r.l. continues in office to perform the audit on the financial statements.

This report is made in accordance with a resolution of directors.

On behalf of the directors



**Andy Bowyer**

Director

30th April 2020  
Luxembourg

# Responsibility Statement

We confirm to the best of our knowledge that:

1. The consolidated and standalone financial statements of Kleos Space S.A. presented in this report and established in conformity with International Financial Reporting Standards as adopted in the European Union give a true and fair view of the financial position and results of Kleos Space S.A. and the undertakings included within the consolidation taken as a whole; and
2. (The Directors' report presented in this report includes a fair review of the development and performance of the business and position of Kleos Space S.A. and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the directors



**Andy Bowyer**

Director

28 February 2020  
Luxembourg



## Statements of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2019

	Note	Consolidated		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>Revenue</b>	5	600,616	827,709	600,616	827,709
Finance income		268	140	268	140
<b>Expenses</b>					
Operating expenses	6	(1,254,581)	(1,209,669)	(1,209,283)	(1,207,977)
Employee benefit expenses	7	(2,287,046)	(1,680,479)	(1,684,387)	(1,580,930)
Research and development expenses		-196,362	-113,932	-196,362	-113,932
Depreciation expense	8	-60,835	-6,099	-60,835	-6,099
Other expenses		-68,828	-10,57	-62,862	-11,01
Finance costs	8	-236,53	-9,004	-236,53	-9,004
Total expenses		(4,104,182)	(3,029,753)	(3,450,259)	(2,928,952)
<b>Loss before income tax expense</b>		<b>(3,503,298)</b>	<b>(2,201,904)</b>	<b>(2,849,375)</b>	<b>(2,101,103)</b>
Income tax expense	10	-	-	-	-
<b>Loss after income tax expense for the year attributable to the owners of Kleos Space S.A.</b>		<b>(3,503,298)</b>	<b>(2,201,904)</b>	<b>(2,849,375)</b>	<b>(2,101,103)</b>
<b>Other comprehensive income</b>					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation		-1,229	482	-	-
Other comprehensive income for the year, net of tax		-1,229	482	-	-
<b>Total comprehensive income for the year attributable to the owners of Kleos Space S.A.</b>		<b>(3,504,527)</b>	<b>(2,201,422)</b>	<b>(2,849,375)</b>	<b>(2,101,103)</b>
			Cents	Cents	Cents
Basic earnings per CDI	11	-3.286	-3.440	-2.672	-3.283
Diluted earnings per CDI	11	-3.286	-3.440	-2.672	-3.283

The above statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

## Statements of financial position

As at 31 December 2019

	Note	Consolidated		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	12	292,593	4,263,626	268,928	4,260,974
Trade and other receivables	13	2,411,346	1,063,837	3,164,777	1,151,530
Total current assets		2,703,939	5,327,463	3,433,705	5,412,504
<b>Non-current assets</b>					
Shares in subsidiaries	14	-	-	204	115
Property, plant and equipment	15	2,442,914	1,917,761	2,442,914	1,917,761
Right-of-use assets	16	35,243	-	35,243	-
Total non-current assets		2,478,157	1,917,761	2,478,361	1,917,876
<b>Total assets</b>		<b>5,182,096</b>	<b>7,245,224</b>	<b>5,912,066</b>	<b>7,330,380</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	17	344,821	728,71	343,271	727,91
Accrued expenses		203,412	754,189	179,461	739,826
Borrowings	18	1,601,198	-	1,601,198	-
Lease liabilities	19	36,602	-	36,602	-
Other current liabilities	20	6,033	717	6,033	717
Total current liabilities		2,192,066	1,483,616	2,166,565	1,468,453
<b>Total liabilities</b>		<b>2,192,066</b>	<b>1,483,616</b>	<b>2,166,565</b>	<b>1,468,453</b>
<b>Net assets</b>		<b>2,990,030</b>	<b>5,761,608</b>	<b>3,745,501</b>	<b>5,861,927</b>
<b>Equity</b>					
Contributed equity	21	7,687,994	7,687,994	7,687,994	7,687,994
Reserves	22	709,979	459,012	710,727	458,53
Accumulated losses		(5,407,943)	(2,385,398)	(4,653,219)	(2,284,597)
<b>Total equity</b>		<b>2,990,030</b>	<b>5,761,608</b>	<b>3,745,501</b>	<b>5,861,927</b>

The above statements of financial position should be read in conjunction with the accompanying notes

## Statements of changes in equity For the year ended 31 December 2019

	Contributed equity	Reserves	Accumulated losses	Total equity
	€	€	€	€
<b>Consolidated</b>				
Balance at 1 January 2018	12,5	-	-183,494	-170,994
Loss after income tax expense for the year	-	-	(2,201,904)	(2,201,904)
Other comprehensive income for the year, net of tax	-	482	-	482
Total comprehensive income for the year	-	482	(2,201,904)	(2,201,422)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 21)	7,675,494	-	-	7,675,494
Share-based payments	-	458,53	-	458,53
<b>Balance at 31 December 2018</b>	<b>7,687,994</b>	<b>459,012</b>	<b>(2,385,398)</b>	<b>5,761,608</b>
	Contributed equity	Reserves	Accumulated losses	Total equity
	€	€	€	€
<b>Consolidated</b>				
Balance at 1 January 2019	7,687,994	459,012	(2,385,398)	5,761,608
Adjustment for adoption of IFRS 16 (note 2)	-	-	4,925	4,925
Balance at 1 January 2019 - restated	7,687,994	459,012	(2,380,473)	5,766,533
Loss after income tax expense for the year	-	-	(3,503,298)	(3,503,298)
Other comprehensive income for the year, net of tax	-	-1,229	-	-1,229
Total comprehensive income for the year	-	-1,229	(3,503,298)	(3,504,527)
Transactions with owners in their capacity as owners:				
Value of conversion rights on convertible notes (note 22)	-	-19,369	-	-19,369
Net share-based payments (including cancellation)	-	271,565	475,828	747,393
<b>Balance at 31 December 2019</b>	<b>7,687,994</b>	<b>709,979</b>	<b>(5,407,943)</b>	<b>2,990,030</b>
	Contributed equity	Reserves	Accumulated losses	Total equity
	€	€	€	€
<b>Company</b>				
Balance at 1 January 2018	12,5	-	-183,494	-170,994
Loss after income tax expense for the year	-	-	(2,101,103)	(2,101,103)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,101,103)	(2,101,103)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 21)	7,675,494	-	-	7,675,494
Share-based payments	-	458,53	-	458,53
<b>Balance at 31 December 2018</b>	<b>7,687,994</b>	<b>458,53</b>	<b>(2,284,597)</b>	<b>5,861,927</b>

The above statements of changes in equity should be read in conjunction with the accompanying notes

Company	Contributed equity	Reserves	Accumulated losses	Total equity
	€	€	€	€
Balance at 1 January 2019	7,687,994	458,53	(2,284,597)	5,861,927
Adjustment for adoption of IFRS 16 (note 2)	-	-	4,925	4,925
Balance at 1 January 2019 - restated	7,687,994	458,53	(2,279,672)	5,866,852
Loss after income tax expense for the year	-	-	(2,849,375)	(2,849,375)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,849,375)	(2,849,375)
Transactions with owners in their capacity as owners:				
Net share-based payments (including cancellation)	-	271,565	475,828	747,393
Value of conversion rights on convertible notes (note 22)	-	-19,369	-	-19,369
<b>Balance at 31 December 2019</b>	<b>7,687,994</b>	<b>710,726</b>	<b>(4,533,219)</b>	<b>3,745,501</b>



## Statements of cash flows

### 2019 December 31 For the year ended

	Note	Consolidated		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>Cash flows from operating activities</b>					
Receipts from government grants		591,6	-	591,6	-
Receipts from participation in development program		13,216	-	13,216	-
Payments to suppliers and employees		(5,521,748)	(2,845,493)	(4,875,574)	(2,759,998)
Interest paid		-27,659	-9,004	-27,659	-9,004
Interest received		268	140	268	140
Net cash used in operating activities	29	(4,944,323)	(2,854,357)	(4,298,149)	(2,768,862)
<b>Cash flows from investing activities</b>					
Payments for investments		-	-	-89	-115
Payments for property, plant and equipment		-533,124	(1,256,860)	-533,124	(1,256,860)
Payments for related parties		-	-	-666,944	-88,032
Receipts from related parties		301	-	-	-
Net cash used in investing activities		-532,823	(1,256,860)	(1,200,157)	(1,345,007)
<b>Cash flows from financing activities</b>					
Net proceeds from issue of CDI's	21	-	6,426,000	-	6,426,000
Proceeds from issue of convertible notes		1,552,840	1,492,253	1,552,840	1,492,253
Repayment of lease liabilities		-46,58	-	-46,58	-
Net cash from financing activities		1,506,260	7,918,253	1,506,260	7,918,253
Net (decrease)/increase in cash and cash equivalents		(3,970,886)	3,807,036	(3,992,046)	3,804,384
Cash and cash equivalents at the beginning of the financial year		4,263,626	456,59	4,260,974	456,59
Effects of exchange rate changes on cash and cash equivalents		-147	-	-	-
Cash and cash equivalents at the end of the financial year	12	292,593	4,263,626	268,928	4,260,974

The above statements of cash flows should be read in conjunction with the accompanying notes

# ● Notes to the financial statements

## 31 December 2019

### Note 1. General information

The financial statements cover both Kleos Space S.A. (referred to as the 'Company' or 'parent entity') as an individual entity and the consolidated entity consisting of Kleos Space S.A. and the entities it controlled (referred to hereafter as the 'consolidated entity') at the end of, or during, the period. The financial statements are presented in Euro, which is Kleos Space S.A.'s functional and presentation currency.

The Company is a Société Anonyme - public limited liability company, incorporated and domiciled in Luxembourg. The Company is dual-listed on the Australian Securities Exchange ('ASX') and Frankfurt Stock Exchange ('FRA').

Its Australian registered office and principal place of business are:

#### Registered office

Level 7, 330 Collins Street  
Melbourne VIC 3000  
Australia

#### Principal place of business

26 rue des Gaulois  
L-1618, Luxembourg  
Luxembourg

The principal activity of the consolidated entity during the financial year was to undertake the development of the Space enabled, activity-based intelligence, data-as-a-service products. The consolidated entity aims to guard borders, protect assets and save lives by delivering global activity-based intelligence and geolocation-as-a-service. The first Kleos Space satellite system, known as Kleos Scouting Mission ('KSM'), will deliver commercially available data and perform as a technology demonstration. KSM will be the keystone for a later global high capacity constellation. The Scouting Mission will deliver targeted daily services with the full constellation delivering near-real-time global observation.

The Company research and development personnel are involved in the development of Radio Frequency ('RF') geolocation techniques, RF signal analysis techniques, data science techniques including machine learning, satellite technologies, and data processing methodologies in order to provide a RF Geolocation Data-as-a-Service series of products to information users in the defence and security Intelligence Surveillance and Reconnaissance market and as well to perform the necessary tests on the equipment for launching their own Low Earth Orbit ('LEO') nano-satellite Earth Observation.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2020. The directors have the power to amend and reissue the financial statements.



## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period and have been endorsed in the European Union.

Except for IFRS 16, the adoption of these new and amended accounting standards and interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial year ended 31 December 2019.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

#### *Interpretation 23 Uncertainty over Income Tax*

The consolidated entity has adopted Interpretation 23 from 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 'Income Taxes' in circumstances where uncertain tax treatments exist. The interpretation requires: the consolidated entity to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the consolidated entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the consolidated entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening accumulated losses as at 1 January 2019.

#### *IFRS 16 Leases (modified retrospective approach)*

The consolidated entity has adopted IFRS 16 from 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, operating results improve as the operating expense is now replaced by interest expense and

depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

### **Impact of adoption**

IFRS 16 is adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening accumulated losses as at 1 January 2019 was as follows:

	<b>1 January 2019 €</b>
Operating lease commitments as at 1 January 2019 (IAS 17)	98,5
Operating lease commitments discount based on the weighted average incremental borrowing rate of 20% (IFRS 16)	-15,318
Lease liabilities - recognised as at 1 January 2019	<u>83,182</u>
Right-of-use assets recognised as at 1 January 2019 (IFRS 16)	88,107
Lease liabilities - current (IFRS 16)	-46,581
Lease liabilities - non-current (IFRS 16)	-36,601
Decrease in opening accumulated losses as at 1 January 2019	<u>4,925</u>

The consolidated entity and the Company did not adopt any standards, amendments or interpretation prior to their mandatory effective dates.

### **Going concern**

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

During the year ended 31 December 2019 the consolidated entity incurred a net loss of €3,503,298 (2018: net loss of €2,201,904). As at 31 December 2019 the consolidated entity had net current assets of €511,873 (2018: net current assets of €3,843,847) and cash and cash equivalents of €292,593 (2018: €4,263,626).

During the year ended 31 December 2019 the Company incurred a net loss of €2,849,375 (2018: net loss of €2,101,103). As at 31 December 2019 the Company had a net current assets of €1,267,140 (2018: net current assets of €3,944,051) and cash and cash equivalents of €268,928 (2018: €4,260,974).

The consolidated entity and the Company have prepared an analysis of its cash requirements for the next

12 months which indicates that the consolidated entity and the Company have sufficient cash resources from secured income streams to fund its operations.

In order to raise sufficient additional funding to meet the requirements of the consolidated entity's future operations and to manage its cash outflows, since 31 December 2019 the consolidated entity has undertaken the following initiatives:

- developed the satellites to launch in 2020 to deliver a revenue stream commencing in 2020;
- developed additional funding routes to ensure the required funding to achieve operations;
- channel partner agreements have been signed to generate revenue post-launch of KSM;
- undertaken a programme to continue to monitor the consolidated entity's ongoing working capital requirements in line with Board approved budgets; and
- continued its focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources and Board approved budgets.

Having considered the above factors, the directors are confident the consolidated entity will be able to continue as a going concern and pay its debts for at least 12 months from approval of these financial statements.

No adjustments have been made relating to the recoverability of recorded asset values and classification of assets and liabilities that might be necessary should the consolidated entity be unable to continue as a going concern.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted in the European Union.

### ***Historical cost convention***

The financial statements have been prepared under the historical cost convention.

### ***Critical accounting estimates***

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgement in the process of applying the consolidated entity's and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kleos Space S. A. as at 31 December 2019 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the

activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

### **Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### **Foreign currency translation**

Foreign currency transactions are translated into the entity's functional currency, mainly the Euro, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### **Foreign operations**

The assets and liabilities of foreign operations are translated into Euro using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Euro using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

## Revenue recognition

The consolidated entity recognises revenue as follows:

### ***Government grant income***

Government grants are not recognised until there is reasonable assurance that the consolidated entity will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the consolidated entity recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the consolidated entity should purchase, construct or otherwise acquire non-current assets are recognised as deferred income from government grants in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

### ***Other revenue***

Other revenue is recognised when it is received or when the right to receive payment is established.

### ***Interest***

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

## Research and development

Research costs are expensed in the period in which they are incurred. Development costs will be capitalised, if and when, it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

## Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost

using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables including prepayments and VAT refundable are measured at amortised cost using the effective interest rate method, less any allowance for expected credit losses.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

### **Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

### ***Impairment of financial assets***

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present

value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

### Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation commences when the asset is available for use as intended by management.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Computer equipment	4 years
Tools and equipment	10 years
Furniture	5 years
Satellite equipment (construction-in-progress)	Depreciation (over 3 years), to commence when the asset is available for its intended use.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.



## Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

## Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Related party payables are recognised at amortised cost, less any provision for impairment.

## Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On initial recognition of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The remainder of the proceeds are allocated to the conversion option that is recognised in other equity, net of transaction costs and income tax. The carrying amount of the conversion option is not subsequently remeasured. The corresponding interest on convertible notes is expensed to profit or loss.

## Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts

are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### **Finance costs**

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

### **Employee benefits**

#### ***Short-term employee benefits***

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### ***Share-based payments***

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of CDIs, or options over CDIs, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the CDI price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the CDI price at grant date and expected price volatility of the underlying CDI, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Equity-settled awards by the parent to employees of subsidiaries are recognised in the parent's individual financial statements as an increase in investment in the subsidiary with a corresponding credit to equity and not as a charge to profit or loss. The investment in subsidiary is reduced by any contribution by the subsidiary.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

### **Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### **Issued capital**

CDIs are classified as equity.

Incremental costs directly attributable to the issue of new CDIs or options are deducted against equity. Costs including marketing costs which do not meet the definition of transaction costs are charged to the profit or loss.

### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date

fair values of the assets transferred by the consolidated entity, liabilities incurred by the consolidated entity to the former owners of the acquiree and the equity interests issued by the consolidated entity in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company consolidated entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

When the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Business combinations are governed by IFRS 3 'Business Combinations'. However, those involving entities under common control are outside the scope of this Standard. There is no other specific guidance on this

topic elsewhere in IFRS. Management is therefore required to use judgement to develop an accounting policy that provides relevant and reliable information in accordance with IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors. Accordingly, the most suitable accounting policy is the "a predecessor value method".

### ***Predecessor value method***

The predecessor value method involves accounting for the assets and liabilities of the acquired business using existing carrying values. The detailed application sometimes differs but the general features of this approach are that:

- the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value; and
- no goodwill is recorded.

During the prior period, the consolidated entity undertook a Business Combination Under Common Control ('BCUCC'), acquiring the operations of the Kleos Space Project from Magna Parva Limited ("immediate parent entity") for £1 consideration.

Management have concluded that the transfer of human resources, intellectual property, know-how, and a suite of other tangible items from its immediate parent entity to the consolidated entity constituted an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

For the purposes of the BCUCC, management have applied the predecessor carrying value method and treated the net assets acquired at the same carrying values as reflected in the financial statements of its immediate parent entity.

The book value of all items transferred by its immediate parent entity in the BCUCC at the date of the transfer to the consolidated entity was \$nil as they did not meet the relevant recognition and measurement criteria of assets or liabilities in accordance with applicable accounting standards as per the judgement of the directors of the immediate parent entity. The directors of the consolidated entity adopted the same recognition and measurement criteria judgments for the net assets transferred in the BCUCC as its immediate parent entity. As a result, there was no financial impact of the BCUCC to be reflected in the financial statements for the comparative period ended 31 December 2017.

The consolidated entity has only included the transactions of the Kleos Space Project in its statement of cash flows and comprehensive income from the date that it obtained control of the project in line with the requirements of IFRS 10 'Consolidated Financial Statements'.

## Earnings per CDI

### *Basic earnings per CDI*

Basic earnings per CDI is calculated by dividing the profit attributable to the owners of Kleos Space S. A., excluding any costs of servicing equity other than CDIs, by the weighted average number of CDIs outstanding during the financial period, adjusted for bonus elements in CDIs issued during the financial period.

### *Diluted earnings per CDI*

Diluted earnings per CDI adjusts the figures used in the determination of basic earnings per CDI to take into account the after income tax effect of interest and other financing costs associated with dilutive potential CDIs and the weighted average number of CDIs assumed to have been issued for no consideration in relation to dilutive potential CDIs.

## Value Added Tax ('VAT') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

## New Accounting Standards and Interpretations not yet mandatory or early adopted

International Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

### *IASB revised Conceptual Framework for Financial Reporting*

A revised Conceptual Framework for Financial Reporting has been issued by the IASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with International Accounting Standards and other for-profit entities that voluntarily elect to apply the

Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of IASB 2019-1 Amendments to International Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the consolidated entity has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under International Accounting Standards, the consolidated entity may need to revisit such policies.

### **Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### ***Share-based payment transactions***

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Monte Carlo model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### ***Impairment of non-financial assets***

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

#### ***Recovery of deferred tax assets***

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### **Development costs**

Development costs have not been capitalised until the technical feasibility of completing the intangible asset has been achieved and it is probable that the future economic benefits generated will flow to the consolidated entity. It is anticipated that the technical feasibility will be complete after the first satellite launch.

### **Government grant income**

The consolidated entity's only income source for the period related to funding received as part of a grant made by the European Space Agency acting on behalf of the Government of Luxembourg. To the extent that all payments are made by the Agency against milestone delivery, the consolidated entity has recognised revenue in line with expenditure, and recognised the balance as a liability.

## **Note 4. Operating segments**

### **Identification of reportable operating segments**

The consolidated entity operates in one segment (Research and Development - technology), based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

## **Note 5. Revenue**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Government grants	587,400	827,709	587,400	827,709
Other revenue	13,216	-	13,216	-
Revenue	<u>600,616</u>	<u>827,709</u>	<u>600,616</u>	<u>827,709</u>

### **Government grants**

Grants revenue represents funding received as part of a grant made by the European Space Agency acting on behalf of the Government of Luxembourg. To the extent that all payments are made by the Agency against relevant milestone delivery, the consolidated entity recognises revenue in profit or loss in line with expenditure, and recognises the balance as a liability in the statement of financial position. Accrued



income is recognised as an asset for amount receivable against revenue recognised on milestone delivery. The consolidated entity recognised revenue of €587,400 (31 December 2018: €827,709) in line with expenditure incurred during the year ended 31 December 2019.

The reconciliation of the grant money received to revenue recognised is as follows:

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Income recognised	200,000	436,109	200,000	436,109
Income accrued	387,400	391,600	387,400	391,600
Total grant funding	587,400	827,709	587,400	827,709

The Company received €591,600 during the year ended 31 December 2019 (31 December 2018: €nil). Total grant funding received up to the reporting date is €1,664,300 against a grant commission of €1,958,000.

### Other revenue

Other revenue represents amount received from Space Capital Colorado, LLC for participation in the fourth cohort of the Catalyst Space Accelerator program.

## Note 6. Operating expenses

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Administration expenses	219,010	248,369	218,370	248,369
Consulting and professional fees	840,601	740,627	836,750	738,935
Occupancy expenses	581	50,021	581	50,021
Travel expenses	194,389	170,652	153,582	170,652
	1,254,581	1,209,669	1,209,283	1,207,977

The consultancy and professional fees for the year ended 31 December 2019 and 31 December 2018 include auditor's remuneration, refer note 9.

The consultancy and professional fees for the year ended 31 December 2018 include the Company's initial public offering fees.

## Note 7. Employee benefit expenses

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Salaries and benefits	1,539,652	1,217,479	936,993	1,117,930
Share-based payments	747,394	463,000	747,394	463,000
	2,287,046	1,680,479	1,684,387	1,580,930
	Consolidated		Company	
	2019	2018	2019	2018
Annual average number of employees	14	9	10	8

## Note 8. Expenses

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Loss before income tax includes the following specific expenses:</b>				
<b>Depreciation</b>				
Computer equipment	1,269	1,648	1,269	1,648
Tools and equipment	6,633	4,399	6,633	4,399
Furniture	69	52	69	52
Office premises right-of-use assets	52,864	-	52,864	-
	60,835	6,099	60,835	6,099
<b>Finance costs</b>				
Interest and finance charges	14,752	9,004	14,752	9,004
Interest and finance charges paid/payable on lease liabilities	12,520	-	12,520	-
Interest - convertible notes	208,871	-	208,871	-
Interest on trade payables	387	-	387	-
	236,530	9,004	236,530	9,004
Net foreign exchange loss*				
Net foreign exchange loss	33,901	10,728	29,792	11,196
* Within Other expense in the Statement of profit or loss and other comprehensive income				
<b>Leases**</b>				
Minimum lease payments	-	50,021	-	50,021

\*\* The operating lease was capitalized as a right-of-use asset in 2019 in accordance with the implementation of IFRS 16. The depreciation of the right-of-use asset is within the Depreciation expense presented above.

## Note 9. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Audit S.à r.l, the auditor of the Company, and its network firms:

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Audit services - Deloitte Audit S.à r.l.				
Audit or review of the financial statements	66,675	62,060	66,675	62,060
Other services - network firms				
Other services	-	54,645	-	54,645

## Note 10. Income tax

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Numerical reconciliation of income tax expense and tax at the statutory rate				
Loss before income tax expense	(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
Tax at the statutory tax rate of 24.94% (2018: 26.01%)	(873,723)	(572,715)	(710,634)	(546,497)
Tax effect amounts which are not deductible in calculating taxable income:				
Current period tax losses not recognised	873,723	572,715	710,634	546,497
Income tax expense	-	-	-	-

Given the consolidated entity is in the early stages of development, there is no certainty that taxable income will be generated and, therefore, no deferred tax assets in relation to temporary differences or tax losses have been included in the financial statements. The cumulative tax losses to the end of 2018 are €3,121,447, the tax return for 2019 has not yet been prepared, but the tax loss is expected to approximate the loss in the financial statements of €2,849,375.

## Note 11. Earnings per CDI

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Loss after income tax attributable to the owners of Kleos Space S.A.	(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
	Number	Number	Number	Number
Weighted average number of CDIs used in calculating basic earnings per CDI	106,627,500	64,006,995	106,627,500	64,006,995
	Cents	Cents	Cents	Cents
Basic earnings per CDI	-3.286	-3.440	-2.672	-3.283
Diluted earnings per CDI	-3.286	-3.440	-2.672	-3.283

At 31 December 2018, the weighted average number of CDIs has been adjusted for the effect of the share split that occurred on 28 May 2018, in accordance with IAS 33 'Earnings per share'.

At 31 December 2019, 18,500,000 (2018: 29,500,000) performance rights and 7,625,000 options (2018: 4,000,000) over CDIs have been excluded from the calculation of the weighted average number of CDIs used in calculating diluted earnings per CDI as they are anti-dilutive.

## Note 12. Current assets - cash and cash equivalents

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Cash on hand	45	88	33	88
Cash at bank	277,783	4,248,766	254,130	4,246,114
Cash on deposit	14,765	14,772	14,765	14,772
	<u>292,593</u>	<u>4,263,626</u>	<u>268,928</u>	<u>4,260,974</u>

The cash and cash equivalents disclosed above and in the statement of cash flows include €14,765 (2018: €14,772) which represents deposits held by various landlords. These deposits are not available to the consolidated entity for general use.

### Note 13. Current assets - trade and other receivables

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Trade receivables	387,400	391,600	387,400	391,600
Receivable from subsidiaries	-	-	754,976	88,032
Prepayments	1,786,346	520,839	1,785,602	520,839
Net VAT refundable	237,600	151,398	236,799	151,059
	<u>2,411,346</u>	<u>1,063,837</u>	<u>3,164,777</u>	<u>1,151,530</u>

Receivable from subsidiaries is repayable on demand and is non-interest bearing.

Prepayments represents payments to Spaceflight in relation to the launch of the Satellite and also includes other prepayments for insurance and engineering services. The amount of prepayments has increased since additional milestone payments have been made for the launch as it draws nearer.

### Allowance for expected credit losses

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2019	2018	2019	2018	2019	2018
Consolidated	%	%	€	€	€	€
Not overdue	-	-	<u>387,400</u>	<u>391,600</u>	-	-

The above table also represents the ageing of the receivables of the Company. The Company performed an analysis of expected credit losses and assessed the expected credit loss as being immaterial.

### Note 14. Non-current assets - shares in subsidiaries

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Shares in subsidiaries	<u>-</u>	<u>-</u>	<u>204</u>	<u>115</u>

## Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Kleos Space (Asia Pacific) Pty Ltd*	Australia	100%	100%
Kleos Space Ltd**	United Kingdom	100%	100%
Kleos Space Inc.***	United States of America	100%	-

\* Dormant company, incorporated on 19 March 2018

\*\* Incorporated on 13 November 2018

\*\*\* Incorporated on 7 October 2019

## Note 15. Non-current assets - property, plant and equipment

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Computer equipment - at cost	5,149	5,149	5,149	5,149
Less: Accumulated depreciation	(2,917)	(1,648)	(2,917)	(1,648)
	2,232	3,501	2,232	3,501
Tools and equipment - at cost	67,245	67,245	67,245	67,245
Less: Accumulated depreciation	(11,032)	(4,399)	(11,032)	(4,399)
	56,213	62,846	56,213	62,846
Furniture - at cost	350	350	350	350
Less: Accumulated depreciation	(121)	(52)	(121)	(52)
	229	298	229	298
Satellite equipment (construction-in-progress)	2,384,240	1,851,116	2,384,240	1,851,116
	<u>2,442,914</u>	<u>1,917,761</u>	<u>2,442,914</u>	<u>1,917,761</u>

## Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Computer equipment €	Tools and equipment €	Furniture €	Satellite equipment (construction-in-progress) €	Total €
Balance at 1 January 2018	-	-	-	-	-
Additions	5,149	67,245	350	1,851,116	1,923,860
Depreciation expense	(1,648)	(4,399)	(52)	-	(6,099)
Balance at 31 December 2018	3,501	62,846	298	1,851,116	1,917,761
Additions	-	-	-	533,124	533,124
Depreciation expense	(1,269)	(6,633)	(69)	-	(7,971)
Balance at 31 December 2019	2,232	56,213	229	2,384,240	2,442,914

The reconciliation of the written down values of the consolidated entity and the Company are the same.

## Note 16. Non-current assets - right-of-use assets

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Office premises - right-of-use	88,107	-	88,107	-
Less: Accumulated depreciation	(52,864)	-	(52,864)	-
	35,243	-	35,243	-

There were no additions to the right-of-use assets during the year ended 31 December 2019, except for the recognition upon first application of IFRS 16.

The right-of-use assets relate to the parent entity's office premises.

## Note 17. Current liabilities - trade and other payables

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Trade payables	344,520	728,710	343,271	727,910
Payable to related party	301	-	-	-
	<u>344,821</u>	<u>728,710</u>	<u>343,271</u>	<u>727,910</u>

Refer to note 24 for further information on financial instruments.

Trade payables primarily represents amounts due for satellite equipment and other operating expenses.

## Note 18. Current liabilities - borrowings

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Convertible notes	<u>1,601,198</u>	<u>-</u>	<u>1,601,198</u>	<u>-</u>

Refer to note 24 for further information on financial instruments.

Refer to note 22 for value of the conversion rights relating to the convertible notes.

The key terms of the convertible notes payable are as follows:

Type of instrument	Secured convertible notes ('Notes') convertible into Chess Depositary Interests ('CDIs') and their underlying shares at the conversion price.
First Tranche - subscription amount	A\$2,000,000 (Face value of notes A\$2,200,000, face value of each note is A\$1.10)
Second Tranche - subscription amount	A\$500,000 (Face value notes of A\$550,000, face value of each note is A\$1.10)
First Tranche - maturity date	28 February 2020
Second Tranche - maturity date	13 May 2020
Interest payable	10% per 6 months on the subscription amount, payable on the date of conversion or the maturity date whichever is earlier.
Conversion price	A\$0.50 per CDI



First Tranche - Maximum number of CDI's	Convertible to a maximum of 4,840,000 CDIs
Second Tranche - Maximum number of CDI's	Convertible to a maximum of 1,210,000 CDIs
Conversion	Investor has the right to convert the Notes and, at its election, any interest accrued, into newly issued CDIs at any time after issuance until the maturity date at the conversion price in minimum tranches of 25,000 Notes.
Redemption	Any Notes which have not been converted by the maturity date will be automatically redeemed by the Company on the maturity date, for the redemption amount equivalent to the face value of those outstanding Notes.
Security	Secured by way of a pledge, charge, mortgage, security deed or similar agreement to effect security over the material assets of the Company to be identified by the Investors, including but not limited to the cash and cash equivalents, all bank accounts, prepayments, satellite equipment and hardware (including work in progress), and all intellectual property of the Company.

## Note 19. Current liabilities - lease liabilities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Lease liabilities	36,602	-	36,602	-

Refer to note 24 for further information on financial instruments.

Lease liabilities relate to the right-of-use of the consolidated entity's office premises.

## Note 20. Current liabilities - other current liabilities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Other current liabilities	6,033	717	6,033	717

## Note 21. Equity - contributed equity

	Consolidated			
	2019 CDIs	2018 CDIs	2019 €	2018 €
CHESS Depository Interests - fully paid	106,627,500	106,627,500	7,687,994	7,687,994

	Company			
	2019 CDIs	2018 CDIs	2019 €	2018 €
CHESS Depository Interests - fully paid	106,627,500	106,627,500	7,687,994	7,687,994

### Movements in CDI/shares

Details	Date	Shares/CDIs	Issue price	€
Balance	1 January 2018	500		12,500
Cancellation of ordinary shares	28 May 2018	(500)	€0.0000	-
Ordinary shares split into CDIs	28 May 2018	23,460,000	€0.0000	-
Issue of CDIs - Debt to equity swap	28 May 2018	1,540,000	€0.0000	188,000
Issue of CDIs	29 May 2018	3,470,000	€0.0010	3,470
Issue of CDIs	29 May 2018	3,470,000	€0.0010	3,470
Issue of CDIs	29 May 2018	1,000,000	€0.0010	1,000
Issue of CDIs	23 August 2018	55,000,000	€0.1286	7,070,338
Issue of CDIs on conversion of convertible notes	23 August 2018	14,687,500	€0.1021	1,499,681
Issue of CDIs to Hunter Capital Advisors Pty Ltd	23 August 2018	4,000,000	€0.0010	4,000
Transactions costs		-	€0.0000	(1,094,465)
Balance	31 December 2018	106,627,500		7,687,994
Balance	31 December 2019	106,627,500		7,687,994

CHESS Depository Interests ('CDI') entitles the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the CDIs held.

All CDIs carry one vote per CDI.

The Company does not have a limited amount of authorised capital.

### CDI buy-back

There is no current on-market CDI buy-back.

### Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new CDIs or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company is seen as value adding relative to the current company's CDI price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 2018 Annual Report.

## Note 22. Equity - reserves

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Foreign currency reserve	(747)	482	-	-
Share-based payments reserve	730,096	458,530	730,096	458,530
Other reserve	(19,369)	-	(19,369)	-
	<u>709,980</u>	<u>459,012</u>	<u>710,727</u>	<u>458,530</u>

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Euro.

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

### Other reserve

The reserve is the value of the conversion rights relating to the convertible notes, details of which are shown in note 18.

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency €	Share-based payments €	Other €	Total €
Balance at 1 January 2018	-	-	-	-
Foreign currency translation	482	-	-	482
Share-based payments	-	458,530	-	458,530
Balance at 31 December 2018	482	458,530	-	459,012
Foreign currency translation	(1,229)	-	-	(1,229)
Share-based payments	-	271,566	-	271,566
Convertible notes	-	-	(19,369)	(19,369)
Balance at 31 December 2019	(747)	730,096	(19,369)	709,980

Company	Foreign currency €	Share-based payments €	Other €	Total €
Balance at 1 January 2018	-	-	-	-
Share-based payments	-	458,530	-	458,530
Balance at 31 December 2018	-	458,530	-	458,530
Share-based payments	-	271,566	-	271,566
Convertible notes	-	-	(19,369)	(19,369)
Balance at 31 December 2019	-	730,096	(19,369)	710,727

## Note 23. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Note 24. Financial instruments

### Financial risk management objectives

The consolidated entity's activities expose it to minimal financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risks to which the consolidated entity is exposed. These methods include ageing analysis for credit risk and sensitivity analysis in the case of interest rate risk.

### Market risk

#### Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The carrying amount of the consolidated entity's and the Company's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2019 €	2018 €	2019 €	2018 €
<b>Consolidated</b>				
Pound Sterling	25,210	2,991	25,590	16,041
Australian dollars	-	-	1,601,198	-
	<u>25,210</u>	<u>2,991</u>	<u>1,626,788</u>	<u>16,041</u>
	Assets		Liabilities	
	2019 €	2018 €	2019 €	2018 €
<b>Company</b>				
Australian dollars	-	-	1,601,198	-

At 31 December 2019, the consolidated entity had net financial liabilities denominated in foreign currency of €1,601,578 (2018: €13,050).

At 31 December 2019, the Company had net financial liabilities denominated in foreign currency of €1,601,198 (2018: €nil).

The following table demonstrates the sensitivity (at 31 December 2019) to a reasonably possible fluctuation in the Euro exchange rate:

	Euro strengthened			Euro weakened		
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
<b>Consolidated - 2019</b>						
Euros	10%	<u>160,158</u>	<u>160,158</u>	10%	<u>-160,158</u>	<u>-160,158</u>
	AUD strengthened			AUD weakened		
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
<b>Company - 2019</b>						
Euros	10%	<u>160,12</u>	<u>160,12</u>	10%	<u>-160,12</u>	<u>-160,12</u>

At 31 December 2019, no sensitivity analysis has been performed on the consolidated entity's and Company's net foreign currency liabilities as the exposure to foreign currency risk is not significant.

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

#### **Price risk**

The consolidated entity and the Company is not exposed to any significant price risk.

#### **Interest rate risk**

At the reporting date, the consolidated entity had no variable rate borrowings.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at the reporting date, the consolidated entity and the Company had the following variable rate cash and cash equivalents:

	2019		2018	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	€	%	€
<b>Consolidated</b>				
Cash at bank	-	277,783	-	4,248,766
Cash on deposit	-	14,765	-	14,772
Net exposure to cash flow interest rate risk		292,548		4,263,538

	2019		2018	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	€	%	€
<b>Company</b>				
Cash at bank	-	254,163	-	4,246,114
Cash on deposit	-	14,765	-	14,772
Net exposure to cash flow interest rate risk		268,928		4,260,886

No sensitivity analysis has been performed for the exposure to interest rate risk on the consolidated entity's and the Company's bank balance as the exposure is not significant.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity.

The consolidated entity and the Company monitors the receivables on an ongoing basis and its exposure to bad debts is not significant.

The consolidated entity and the Company's bank balance is deposited with creditworthy a bank with no recent history of default.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any allowance for expected credit losses of those assets, as disclosed in the statement of financial position and notes to the financial statements.

## Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The consolidated entity and the Company manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

### Remaining contractual maturities

The following table details the consolidated entity's and Company's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

		Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2019		%	€	€	€	€	€
Non-derivatives							
Non-interest bearing							
Trade and other payables	-		344,520	-	-	-	344,520
Other current liabilities	-		6,033	-	-	-	6,033
Interest-bearing - fixed rate							
Convertible notes	-		1,601,198	-	-	-	1,601,198
Lease liabilities	-		36,602	-	-	-	36,602
Total non-derivatives			1,988,353	-	-	-	1,988,353

		Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2018		%	€	€	€	€	€
Non-derivatives							
Non-interest bearing							
Trade payables	-		728,710	-	-	-	728,710
Other current liabilities	-		717	-	-	-	717
Total non-derivatives			729,427	-	-	-	729,427



<b>Company - 2019</b>	<b>Weighted average interest rate</b> %	<b>1 year or less</b> €	<b>Between 1 and 2 years</b> €	<b>Between 2 and 5 years</b> €	<b>Over 5 years</b> €	<b>Remaining contractual maturities</b> €
Non-derivatives						
Non-interest bearing						
Trade payables	-	343,271	-	-	-	343,271
Other current liabilities	-	6,033	-	-	-	6,033
Interest-bearing - fixed rate						
Convertible notes payable	-	1,601,198	-	-	-	1,601,198
Lease liabilities	-	36,602	-	-	-	36,602
Total non-derivatives		1,987,104	-	-	-	1,987,104

<b>Company - 2018</b>	<b>Weighted average interest rate</b> %	<b>1 year or less</b> €	<b>Between 1 and 2 years</b> €	<b>Between 2 and 5 years</b> €	<b>Over 5 years</b> €	<b>Remaining contractual maturities</b> €
Non-derivatives						
Non-interest bearing						
Trade payables	-	727,910	-	-	-	727,910
Other current liabilities	-	717	-	-	-	717
Total non-derivatives		728,627	-	-	-	728,627

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

### Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 25. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

## Note 26. Commitments

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Capital commitments*				
Committed at the reporting date but not recognised as liabilities, payable:				
Property, plant and equipment (satellite and launch)	295,900	2,159,000	295,900	2,159,000
Lease commitments - operating**				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	-	59,100	-	59,100
One to five years	-	39,400	-	39,400
	-	98,500	-	98,500

\*The capital expenditure in relation to property, plant and equipment represents the consolidated entity's contract for the Satellite procurement and launch services.

\*\*Operating lease for the year ended 31 December 2018 relates to lease of premises with a lease term of 2 years.

Refer to note 2 for impact of adoption of IFRS 16 Leases.

## Note 27. Related party transactions

### Parent entity

Magna Parva Limited is a company incorporated in the United Kingdom, is the immediate parent entity of the Company.

### Subsidiaries

Interests in subsidiaries are set out in note 14.

### Key management personnel

Disclosures relating to key management personnel are set out in note 28.

### *Transactions with related parties*

The following transactions occurred with related parties:

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Payment for goods and services:				
Payments for salaries on behalf of subsidiary	-	-	666,944	88,147

### *Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Current receivables:				
Receivable from subsidiaries	-	-	754,976	88,032
Current payables:				
Payable to immediate parent entity	301	-	-	-

All transactions were made on normal commercial terms and conditions, at market rates and settled in cash.

### Loans to/from related parties

On 28 May 2018, the loan with the immediate parent entity (€188,000) was converted to 1,540,000 CDIs in the Company.

## Note 28. Key management personnel disclosures

### Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Short-term employee benefits	617,952	467,888	204,408	467,888

## Note 29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Loss after income tax expense for the year	(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
Adjustments for:				
Share-based payments	747,393	463,000	747,393	463,000
Foreign exchange differences	(1,082)	482	-	-
Depreciation	60,835	6,099	60,835	6,099
Interest on convertible notes	208,871	-	208,871	-
Change in operating assets and liabilities:				
Decrease/(increase) in trade and other receivables	4,200	(391,600)	4,200	(391,600)
Increase in other operating assets	(1,351,709)	(647,565)	(1,350,503)	(647,226)
Decrease in trade and other payables	(384,190)	(206,109)	(384,639)	(206,909)
Increase/(decrease) in other operating liabilities	(725,343)	123,240	(734,931)	108,877
Net cash used in operating activities	<u>(4,944,323)</u>	<u>(2,854,357)</u>	<u>(4,298,149)</u>	<u>(2,768,862)</u>

## Note 30. Non-cash investing and financing activities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Additions to the right-of-use assets	88,107	-	88,107	-
CDIs issued on conversion of loan with immediate parent entity	-	188,000	-	188,000
CDIs issued on conversion of convertible notes	-	1,499,681	-	1,499,681
	<u>88,107</u>	<u>1,687,681</u>	<u>88,107</u>	<u>1,687,681</u>

## Note 31. Changes in liabilities arising from financing activities

Consolidated	Convertible notes €	Loan with immediate parent entity €	Lease liabilities €	Total €
Balance at 1 January 2018	-	188,000	-	188,000
Proceeds from convertible notes	1,492,253	-	-	1,492,253
Conversion to CDIs	(1,499,681)	(188,000)	-	(1,687,681)
Exchange differences	7,428	-	-	7,428
Balance at 31 December 2018	-	-	-	-
Leases recognised on the adoption of IFRS 16	-	-	83,182	83,182
Proceeds from convertible notes	1,552,840	-	-	1,552,840
Repayment of leases	-	-	(46,580)	(46,580)
Other changes non-cash	48,358	-	-	48,358
Balance at 31 December 2019	1,601,198	-	36,602	1,637,800

The changes in liabilities arising from financing activities of the consolidated entity and the Company are the same.

## Note 32. Share-based payments

2019		Exercise price A\$	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Expiry date						
24/08/2018	17/08/2021	0.3000	4,000,000	-	-	-	4,000,000
06/09/2019	06/09/2022	0.4000	-	1,000,000	-	-	1,000,000
06/09/2019	06/09/2022	0.4000	-	1,900,000	-	-	1,900,000
19/12/2019	19/12/2022	0.4000	-	250,000	-	-	250,000
19/12/2019	19/12/2022	0.4000	-	475,000	-	-	475,000
			4,000,000	3,625,000	-	-	7,625,000
Weighted average exercise price (A\$)			0.30	0.40	-	-	0.32

2018		Exercise price A\$	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Expiry date						
24/08/2018	17/08/2021	€0.3000	-	4,000,000	-	-	4,000,000
			-	4,000,000	-	-	4,000,000

The weighted average remaining contractual life of options outstanding at 31 December 2019 was 2.16 years (2018: 2.63 years).

### Performance rights

Set out below are summaries of performance rights granted:

#### 2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the year
5/29/2018	3/26/2019	€0.0000	500	-	-	-	500
5/29/2018	5/29/2019	€0.0000	1,000,000	-	-	(1,000,000)	-
5/29/2018	11/29/2019	€0.0000	18,500,000	-	-	(10,000,000)	8,500,000
5/29/2018	5/29/2020	€0.0000	9,500,000	-	-	-	9,500,000
			29,500,000	-	-	(11,000,000)	18,500,000

#### 2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the year
5/29/2018	3/26/2019	€0.0000	-	500	-	-	500
5/29/2018	5/29/2019	€0.0000	-	1,000,000	-	-	1,000,000
5/29/2018	11/29/2019	€0.0000	-	18,500,000	-	-	18,500,000
5/29/2018	5/29/2019	€0.0000	-	4,000,000	-	(4,000,000)	-
5/29/2018	5/29/2020	€0.0000	-	9,500,000	-	-	9,500,000
			-	33,500,000	-	(4,000,000)	29,500,000

\*Other relates to the performance rights cancelled on the resignation of a consultant.

Set out below are the performance rights vested at the end of the financial year:

Grant date	Expiry date	2019	2018
		Number	Number
5/29/2018	3/26/2019	500	-
5/29/2018	11/29/2019	8,500,000	-
		9,000,000	-

The weighted average remaining contractual life of performance rights outstanding at 31 December 2019 was 0.21 years (2018: 1.04 years).

### Valuation of options granted

Fair value determined at the grant date is recorded as an expense using the straight-line method over the vesting period and adjusted for the effect of non-market based vesting conditions. Where the fair value calculation requires modelling of the Company's performance against other market index, fair value is measured using the Monte Carlo pricing model to estimate the forecasted target performance goal for the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, and behavioural considerations. In addition, the expected annualized volatility has been set by reference to the implied volatility of options available on Kleos Space S.A. shares in the open market, as well as, historical patterns of volatility.

### Share-based payment expense

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Options	377,394	463,000	377,394	463,000
Performance rights	370,000	-	370,000	-
Total share-based payment expense	747,394	463,000	747,394	463,000

### Note 33. Events after the reporting period

On 18 February 2020, the Company secured a loan agreement of €3,410,000 (A\$5,500,000) with a Dubai-based Family Office, Winance Investment LLC ('Winance'). Proceeds of €1,857,353 (A\$3,025,000) were used to retire the existing loans outstanding.

On 20 February 2020, the Company issued 6,319,125 warrants to Winance with an exercise price of A\$0.38 and a three year term, on satisfying the conditions of the loan agreement.

The Company has agreed to issue a further 2,285,381 warrants to Winance with an exercise price of A\$0.38 and a three year term, subject to approval of shareholders at the Annual General Meeting.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.



To the Shareholders of  
Kleos Space S.A.  
26, rue des Gaulois,  
L-1618 Luxembourg

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the Audit of the Consolidated and Company Financial Statements

#### Opinion

We have audited the consolidated and company financial statements of Kleos Space S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company statements of financial position as at 31 December 2019, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and company financial statements give a true and fair view of the consolidated and company financial position of the Group and the Company as at 31 December 2019, and of its consolidated and company financial performance and of its consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union.

#### Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier*" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of *Réviseur d'Entreprises Agréé*" for the Audit of the Consolidated and Company Financial Statements section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated and company financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of the audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the Key Audit Matter was addressed in our audit
<p>Intangible and tangible assets capitalization</p> <p>Refer is made to note 13 &amp; 15 of the Financial Statements.</p> <p>The non-current assets are mostly composed of the Satellite equipment which are under construction for an amount of EUR 2.384.240 (note 15).</p> <p>The current assets are mostly composed of the prepayment in relation to the launch of the Satellites (Note 13).</p> <p>The Company has recognized a total of EUR 196.362 (2018: 113.932) Research and development expense in the statement of profit or loss and other comprehensive income.</p> <p>During the year the company has reached milestones for the construction of its first satellites and development of its Activity Based Intelligence Technology as well as incurred additional prepayment for the launch of Satellites</p> <p>Due to the size of the balances and judgement involved regarding capitalization criteria under IAS 16 "<i>Property, plant and equipment</i>" or IAS 38 "<i>Intangible Assets</i>", we considered this area to be a key audit matter.</p>	<p>Our procedures included amongst other:</p> <ul style="list-style-type: none"> <li>Obtaining an understanding of Company's process for assessing whether any research and development cost has met all of the IAS 38 "<i>Intangible assets</i>" recognition criteria and whether prepayments for satellite construction and launch has met all capitalization criteria in accordance with the relevant accounting standard IAS 16 "<i>Property, plant and equipment</i>".</li> <li>Testing the design and the implementation for the relevant controls identified;</li> <li>Reviewing the detailed analysis prepared by Management related to research and development cost for the year;</li> <li>Meeting with management and discussed the nature of the work being completed and their assessment on the stage of technical development and economic feasibility;</li> <li>Considering other information obtained during the audit (performing test of details), including products and solutions being developed in relation to key customer contracts, the stage of related sales prospects, to determine whether the status of these contracts corroborated management's assertions over the technical feasibility and the ability to generate future economic benefits.</li> </ul> <p>We also assessed the adequacy of the disclosure included in note 13 &amp; 15 to the Financial Statements.</p> <p><b>Observation</b></p> <p>Our procedures did not identify material exceptions and we considered management key judgement as reasonable.</p>

## **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Directors' report but does not include the consolidated and company financial statements and our report of the "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## **Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated and Company Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these consolidated and company financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated and Company Financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law dated 23 July 2016 and with ISAs as adopted for



Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with the Law dated 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "*Réviser d'Entreprises Agréé*" to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "*Réviser d'Entreprises Agréé*". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures, and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

The Directors' report is consistent with the consolidated and company financial statements and has been prepared in accordance with applicable legal requirements.

For Deloitte Audit, *Cabinet de Révision Agréé*



David Osville, *Réviseur d'Entreprises Agréé*  
Partner

February 28, 2020



**KLEOS SPACE S.A.**

(Formerly known as Kleos Space S.à r.l.)

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