



Sky and Space Global Ltd
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13 December 2019

ASX Limited
Level 40 Central Park
152-158 St Georges Terrace
PERTH WA 6000

Attention: Penelope Reid

Sky and Space Global Ltd

Sky and Space Global Ltd (ASX: SAS) (**Company** or **SAS**) refers to your query letter dated 9 December 2019 and provides the following responses.

1. Is SAS able to confirm that in the Directors' Opinion the Full Year Accounts:

(a) comply with the relevant Accounting Standards; and

Yes.

(b) give a true and fair view of SAS's financial performance and position?

Yes.

2. Please explain on what basis the directors determined a provision for onerous contracts for \$118 million was not required to be included in the Full Year Accounts.

The Directors agreed with the Company's view that these agreements do not represent onerous contracts based on the Company's ongoing review of its suppliers, contractual obligations and respective status. The \$118 million of potential onerous contract provisions relate to possible contract termination costs for the completion of the design, engineering, construction and supply of the 6U and Pearl nanosatellites by GomSpace and launches of nanosatellites by Virgin Orbit.

The procurement agreement for 6U nanosatellites between the Company and GomSpace is subject to the Company concluding its capital raise and the parties finalizing a new Pearls agreement, neither of these two events had occurred at 30 June 2019. The Company and GomSpace are negotiating in good faith to enter into a new Pearls agreement based on the principles agreed upon under the heads of agreement already signed by the parties, with the mutual understanding that the new Pearls agreement shall address the Company's ongoing financial progress. The Pearls program had concluded its critical design review at October 2018, but no production work had been initiated at that date, with the Company business plan pivot to a 1st batch of 6U nanosatellites. The Company's position is that neither the 6U

agreement nor the Pearls agreement represent onerous contracts based on the status at 30 June 2019 and ongoing discussions between the parties.

The Company is in communication with Virgin Orbit regarding adjusting the terms of the agreement given Virgin Orbit's delayed initiation of its commercial launch services and the Company's ongoing financial progress. The Company's position is that the Virgin Orbit agreement does not represent an onerous contract based on the status at 30 June 2019 and ongoing discussions between the parties.

3. What steps has SAS taken since the release of the Full Year Accounts to present its future financial statements on a going concern basis?

The Company has lodged a Prospectus to raise up to A\$15.8 million through an Entitlement Offer and Placement Offer (subject to receipt of shareholder approval at a general meeting to be held on Monday, 16 December 2019). Both Offers are expected to be completed in December 2019, as disclosed in the indicative timetable of the Supplementary Prospectus released on 10 December 2019.

4. Does SAS consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion and comment specifically on Note 2 (c) of the Full Year Accounts.

Yes. The Company expects to raise the necessary funds through the Entitlement Offer and Placement Offer to enable it to continue with its current business plan. Note 2 (c) of the Full Year Accounts includes details of possible actions the Company may take if the Company does not raise the necessary funds. These possible actions were required to be disclosed but are not expected to occur.

SAS is now on the cusp of commercialisation, supported by a revised business strategy that significantly extends the commercial opportunity for SAS through the extension of its initially planned Equatorial coverage constellation to a Global one. Recent months have been challenging; however, the Company has been working hard on all fronts to advance its technology, software and commercial traction. With over 50 potential future customers already signed for future services and a strong distribution network of partners and resellers, the Company is embarking on this next phase with a clear pathway towards the launch of its first batch of 6U nanosatellites in 2020 and the goal of generating first commercial revenues from the operation of this first batch of 6U nanosatellites.

5. Does SAS consider that the financial condition of SAS is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, commenting specifically on Note 2 (b) of the Full Year Accounts which states the following, 'the entity is not expected to continue as a going concern'.

Yes. Finalisation of the Company's audited accounts was delayed due to the Company's preference to finalise the audit following the completion of the Offers, which would have allowed the accounts to be prepared on a going concern basis. Following ASIC's requirements in relation to the Interim Stop Order dated 21 November 2019, the Company's audited accounts for 30 June 2019 were finalised prior to completion of the Offers. In order for the accounts to be finalised prior to the completion of the Offers the accounts had to be prepared on an 'other than going concern basis'.

The Company expects to return to the going concern basis of accounting following the completion of the Entitlement Offer and Placement Offer in December 2019.

- 6. If the answer to questions 4 or 5 is 'No', please explain what steps SAS has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.**

Not applicable.

- 7. In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of SAS's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of SAS 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 SAS and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?**

Yes.

- 8. If the answer to Question 7 is 'No', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of SAS's Corporate Governance Disclosure?**

Not applicable.

- 9. What enquiries did the Board make of management to satisfy itself that the financial records of SAS 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 SAS?**

The Board monitors the integrity of the financial records of the Company throughout the year. The Board discussed at length with management the preparation of the 30 June 2019 financial statements on an 'other than going concern basis', the impairment of assets during the year and the potential onerous contract provisions. Enquiries included five formal board meetings or discussions in addition to ongoing informal emails and calls.

- 10. Commenting specifically on the Adverse Opinion, does the board consider that SAS has a sound system of risk management and internal control which is operating effectively?**

Yes.

- 11. Please confirm that SAS is complying with the Listing Rules and, in particular, Listing Rule 3.1.**

The Company confirms that it is complying with the Listing Rules and, in particular, Listing Rule 3.1.

12. Please confirm that SAS's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SAS with delegated authority from the board to respond to ASX on disclosure matters.

The Company confirms that its responses to the questions above have been authorised and approved by its Board.

Yours faithfully

Meir Modlem
CEO and Managing Director
For and on behalf of Sky and Space Global Ltd



9 December 2019

Ms Rachel Kerr
Company Secretary
Sky and Space Global Ltd
1202 Hay Street
WEST PERTH WA 6005

By email: rachelk@sasglobal.com.au

Dear Ms Kerr

Sky and Space Global Ltd ('SAS'): Queries regarding Accounts

ASX refers to:

- A. SAS's full year accounts for the full year ended 30 June 2019 lodged with ASX Market Announcements Platform and released on 4 December 2019 ('Full Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report') contains an adverse opinion ('Adverse Opinion') together with the Basis for Adverse Opinion:

'Adverse Opinion

We have audited the Financial Report of Sky and Space Global Ltd (the Company).

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section of this report, the accompanying Financial Report of the Company is not in accordance with the Corporations Act 2001, including:

- *giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and*
- *complying with Australian Accounting Standards and the Corporations Regulations 2001.*

Basis for adverse opinion

As disclosed in note 20 Commitments, contingent assets and contingent liabilities the Group has entered into supplier and services contracts relating to its planned future nano-satellite construction and launch activities (the 'contracts'). The contracts give rise to substantial purchase obligations, as set out in note 20, and include contract termination clauses that impose substantial costs on the Group should the contracts be terminated by the Group.

Pursuant to Australian Accounting Standard 137 - Provisions, Contingent Liabilities and Contingent Assets (AASB 137) the contract termination clauses within the contracts represent onerous contracts. Therefore, the Group should measure and recognise a provision for these onerous contracts. We consider the unavoidable costs of exiting the contracts exceed the future economic benefits expected to be derived under the contracts, given the Group's assessment that the going concern basis of preparation is not appropriate, as stated in note 2 b) Basis of Preparation. In light of this, we consider the exit of the contracts prior to the intended completion of the contracts constitutes a provision pursuant to AASB 137.

The Financial report does not include a provision for onerous contracts. Had the Group accounted for this provision in accordance with AASB 137, an expense would be recorded in the consolidated statement of profit or loss and other comprehensive income for approximately \$118 million with the recognition of a current liability for the same amount. This would have the effect of increasing the operating loss and decreasing shareholders' equity by \$118 million, and current and total liabilities would increase by \$118 million. This matter results in further misstatements in the notes to the Financial Report as a result of the group referring to the incorrect annual result, such as in the tax expense reconciliation.

Additionally, the disclosures in note 2 b) Basis of Preparation do not describe the impact of recognition of this provision on the Directors preparing the Financial Report on a basis other than going concern. As a result, the notes to the Financial Report currently omit this qualitative information.

We conducted our audit in accordance with Australian Auditing Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.

We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.'

C. Note 2 (b) of the Full Year Accounts, which states the following:

'...In preparing the financial statements on a basis other than going concern, the Company has continued to apply the requirements of Australian Accounting Standards taking into account that the entity is not expected to continue as a going concern.'

D. Note 2 (c) of the Full Year Accounts, which states the following:

'...If the necessary funds are not raised the Company will need to reassess its business objectives including, but not limited to, further deferring the manufacture and launch of satellites, limiting operational costs, seeking alternative additional funding and, if required, entering a caretaker mode of operations until the required funding is secured.'

E. SAS's Corporate Governance Statement for financial year end 30 June 2019 lodged on the ASX Market Announcements Platform on 4 December 2019 which provides confirmation that SAS complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

'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.'

F. Listing Rule 12.1 which states:

12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.

G. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

H. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.
- (b) The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.
- (c) If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.
- (d) If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).
- (e) If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.
- (f) If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.

Request for Information

In light of the information contained in the Full Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is SAS able to confirm that in the Directors' Opinion the Full Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of SAS's financial performance and position?
2. Please explain on what basis the directors determined a provision for onerous contracts for \$118 million was not required to be included in the Full Year Accounts?
3. What steps has SAS taken since the release of the Full Year Accounts to present its future financial statements on a going concern basis?
4. Does SAS consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion and comment specifically on Note 2 (c) of the Full Year Accounts.

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5. Does SAS consider that the financial condition of SAS is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, commenting specifically on Note 2 (b) of the Full Year Accounts which states the following, 'the entity is not expected to continue as a going concern'.
 6. If the answer to questions 4 or 5 is 'No', please explain what steps SAS has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
 7. In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of SAS's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of SAS 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 SAS and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
 8. If the answer to Question 7 is 'No', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of SAS's Corporate Governance Disclosure?
 9. What enquiries did the Board make of management to satisfy itself that the financial records of SAS 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 SAS?
 10. Commenting specifically on the Adverse Opinion, does the board consider that SAS has a sound system of risk management and internal control which is operating effectively?
 11. Please confirm that SAS is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 12. Please confirm that SAS's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SAS with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and SAS's response to the market. Accordingly, SAS's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **2 pm AWST Monday, 16 December 2019**.

Any response should be sent to me by return email at ListingsCompliancePerth@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely

Penelope Reid
Adviser, Listings Compliance (Perth)