KLEOS

Annual Report

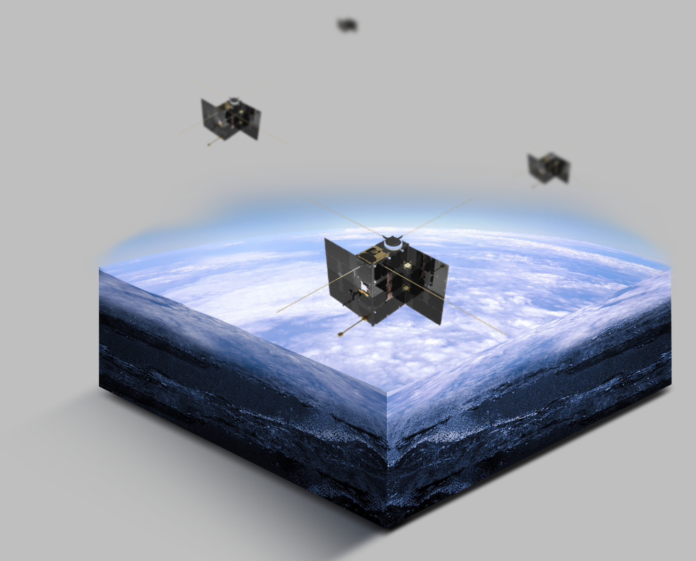
2022

REPORTING PERIOD:
For the year ended 31 December 2022

KLEOS

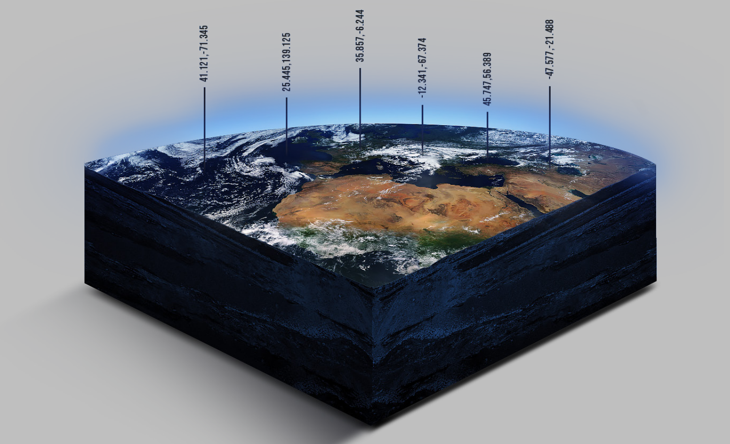
Annual Report

2022



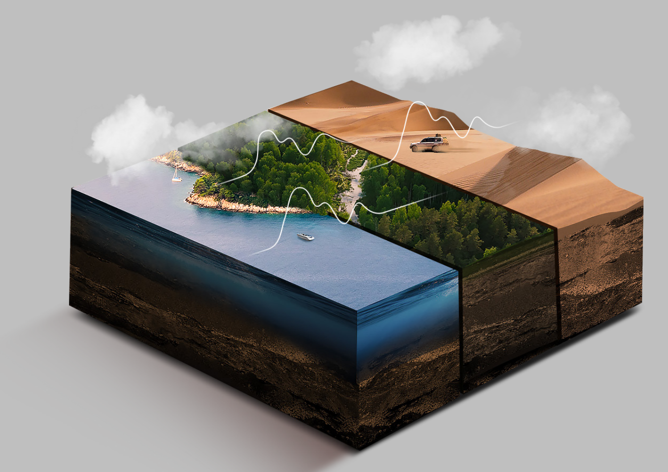
COLLECT

Constellation of satellites collecting
RF signals over critical areas of interest.



LOCATE

Signals are processed, precisely
geolocating RF transmitters.



INFORM

Delivering actionable, analytic-ready
data to detect hidden human activity.

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CORPORATE DIRECTORY

DIRECTORS

Peter Round (Chairman and Executive Chairman
Andrew Bowyer (Chief Executive and Managing Director)
David Christie (Non-Executive Director)
Padraig McCarthy (Non-Executive Director)

COMPANY SECRETARY

Vanessa Chidrawi

AUSTRALIAN POSTAL ADDRESS

The Viceroy Consulting Group Pty Ltd
44/ 104 Miller Street
Pyrmont
NSW 2009
Australia

AUSTRALIAN REGISTERED OFFICE

The Viceroy Consulting Group Pty Ltd
44/ 104 Miller Street
Pyrmont
NSW 2009
Australia

PRINCIPLE PLACE OF BUSINESS

Luxite Two
7, Rue de l'Innovation
L-1896 Kockelscheuer
Luxembourg

SHARE REGISTER

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000
Australia

AUDITOR

Ernst & Young S.A.
35E avenue John F. Kennedy
L-1855 Luxembourg
Luxembourg

STOCK EXCHANGE LISTING

Kleos Space S.A. CDIs are listed on the Australian Securities Exchange (ASX code: KSS) and on the Frankfurt Stock Exchange (FRA code: KS1)

WEBSITE

www.kleos.space

BUSINESS OBJECTIVES

The company has used cash and cash equivalents held at the time of listing in a way that is consistent with its stated business objectives.

CORPORATE GOVERNANCE STATEMENT

The directors and management are committed to conducting the business of Kleos Space S.A. in an ethical manner and in accordance with the highest standards of corporate governance. Kleos Space S.A. has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.

The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, was approved at the same time as this report and can be found at: https://kleos.space/investors/.

Chairman's Statement

AIR COMMODORE PETER ROUND

CHAIRMAN'S STATEMENT

2022 has been another year of significant progress for Kleos; launching our Patrol Mission (KSF2) satellites, securing additional debt funding to support our expansion activities, and further technological advancements within our proprietary signal processing platform, all culminating in our first intelligence product, LOCATE, being delivered to customers in late 2022.

Delivery of data is a critical milestone for Kleos as we move into our commercial operational phase. In early 2023 we confirmed our data delivery capability from our Vigilance Mission (KSF1) and this has led to the commencement of revenue recognition from existing customer contracts.

Additionally, we have a strong global sales pipeline of government and commercial qualified deals, which span defence departments, national security agencies, coast guards, sanctions agencies, and data aggregators. With this commercial operation milestone now reached we expect to see both recognised revenues and new cash receipts ramp up in future periods.

Globally, new and existing geopolitical conflicts have, once again, highlighted the critical role that real-time commercial ISR datasets can play in modern warfare. They provide decision makers with greater situational awareness and actionable intelligence. The Ukraine war has proven the value, and normalised the use, of commercial ISR data sets. Our geolocation data is also suitable for improving detection of other real-world challenges currently being faced by governments, including but not limited to drug and people smuggling, piracy, illegal fishing and border security issues.

Through the year we have strengthened our board and management team with a particular US centric focus including the appointment of Mr Alan Khalili as CEO, who was previously CFO, and previously, the appointment of Ms Dawn Harms as independent non-executive director. Together they bring a wealth of experience across space technology, aerospace, and the satellite industry. Our co-founder and former CEO, Andy Bowyer remains involved on a day-to-day basis as an Executive Director and Chief Strategy Officer.

As the world's largest defence intelligence industry, the US market is critical to the long term growth of Kleos and the Company is fully engaged. The addition of Mr Khalili and Ms Harms to our team provides additional exposure to Kleos within the US intelligence community which will support the future acquisition of high-value government contracts in other markets as well as increasing the profile of Kleos.

During 2022, we have made critical advancements within our proprietary signal processing technology which now enables our LOCATE geospatial intelligence product to be produced from data collected from as few as two satellites in formation as well as enabling the opportunity to ingest raw data from 3rd party sensors, in addition to those owned by Kleos. These advancements are a great asset to Kleos by significantly reducing future execution risk and allowing greater flexibility for increased processing activity on the ground.

On behalf of the Board, I would like to thank the global Kleos team for their continued hard work and contribution through what has been a most exciting period for the Company. I'd also like to thank our loyal shareholders for their support over the past years.

As we look towards 2023 and beyond, with our LOCATE product now being made available to customers, our data improving as each Mission comes into commercial operation, and our technology continuing to improve, we are at a pivotal point in our Company's evolution and well on the path towards profitability.

Peter Round

AIR COMMODORE PETER ROUND
Kleos Space S.A. Chairman

Additional ASX Information

13 MARCH 2023

ADDITIONAL
ASX INFORMATION

The shareholder information set out below was current as at 13 March 2023.

The Company has securities listed for quotation in the form of CHESS Depositary Interests over shares in the Company (CDIs), which trade under the code "KSS" on ASX. Each CDI is equivalent to one ordinary share. There are 190,475,876 CDIs on issue.

The Company is incorporated in Luxembourg and listed on ASX and on the Frankfurt Stock Exchange (code KSF1). As a Luxembourg company, it is not subject to chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth.) dealing with the acquisition of its shares (including substantial holdings and takeovers).

SUBSTANTIAL HOLDERS (Listing Rule 4.10.4)

The securities held by substantial security holders, as disclosed to the Company, are as follows:

Name	No. of equity securities	% of voting power
Associates of Stephen Silver:		
LTL Capital PLY LTD	29,840,938 CDIs	15.66%
Sterling Venture Holdings PTY LTD	580,000 CDIs	0.30%
Miles Ashcroft*	29,375,000 CDIs	15.42%
Andrew Bowyer*	29,375,000 CDIs	15.42%
Associates of Janet Cameron:		
Elsie Cameron Foundation PTY LTD ATF Elsie Cameron Foundation	14,413,670 CDIs	7.56%
Bicheno Investments PTY LTD ATF Janet Cameron Trust	6,592,169 CDIs	3.46%

* *Including 25,000,000 CDIs held by Magna Parva Limited, of which Messrs Ashcroft and Bowyer are shareholders.*

VOTING RIGHTS (Listing Rule 4.10.6)

Holders of CDIs are able to attend the Company's general meetings, should they wish. 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:

a.) 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

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

c.) 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 CDI holder must complete the conversion prior to the record date for the meeting.

As holders of CDIs will not appear on the Company's share register as the legal holders of 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 the Luxembourg law of 10 August 1915 on commercial companies, as amended. Since CHESS Depositary Nominees is the legal holder of the 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)

CDIs

Range	No. of Securities	% Securities	No. of Holders	% Holders
100,001 and Over	172,349,310	90.48	128	6.51
10,001 to 100,000	13,592,145	7.14	393	19.99
5,001 to 10,000	2,347,215	1.23	299	15.21
1,001 to 5,000	1,946,525	1.02	779	39.62
1 to 1,000	240,681	0.13	367	18.67
Total	**190,475,876**	**100.00**	**1,966**	**100.00**
Unmarketable Parcels	1,157,218	0.61	887	45.12

ADDITIONAL
ASX INFORMATION

TWENTY LARGEST SHAREHOLDERS (Listing Rule 4.10.9)

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

Rank	Name	Holding	% IC
1	LTL Capital PTY LTD	28,818,269	16.15
2	Magna Parva Limited	25,000,000	14.44
3	Mutual Trust PTY LTD	21,005,879	14.00
4	BNP Paribas Nominees PTY LTD ACF Clearstream	9,983,744	3.56
5	Winance	6,699,009	3.29
6	Mr Ricky Steven Neumann	5,685,564	3.12
7	Citicorp Nominees PTY Limited	4,328,267	2.79
7	Andrew Bowyer	4,250,000	2.52
8	Miles Ashcroft	4,250,000	2.38
9	Merrill Lynch (Australia) Nominees PTY Limited	4,135,407	2.38
10	Ms Kate Louise Elsmore	3,977,580	2.16
11	UBS Nominees PTY Ltd	3,200,191	2.10
12	Tyler Corporation PTY Limited	2,826,000	1.95
13	BNP Paribas Nominees PTY Ltd	2,501,770	1.69
14	Hunter Capital Advisors P/L	2,459,597	1.63
15	Brispot Nominees PTY Ltd	1,771,680	1.18
16	LTL Captial PTY Ltd	1,763,602	1.12
17	Mr Gordon Mark Crane & Mrs Elizabeth Marie Crane	1,406,000	0.99
18	Innovative Solutions in Space B.V	1,276,711	0.72
19	N & M Silver Investments PTY Ltd	1,123,581	0.62
20	Buttonwood Nominees PTY Ltd	1,011,527	0.56
	Total	**137,474,378**	**72.17**
	Balance of register	**53,001,498**	**27.83**
	Grand total	**190,475,876**	**100.00**

RESTRICTED SECURITIES (Listing Rule 4.10.14)

As at 13 March 2023, there were no restricted securities or securities subject to escrow on issue.

UNQUOTED SECURITIES (Listing Rules 4.10.5 and 4.10.14)

As at 13 March 2023, the following unquoted securities are on issue:

2,208,000 Options issued under an employee incentive scheme, with an exercise price of $0.20
2,285,381 Warrants expiring 6 July 2023 @ $0.38 - 1 Holder
Holders with more than 20%

Holder Name	Holding	% IC
Winance	2,285,381	100.00%

72,941 Unlisted Warrants expiring 30 June 2031 @ $0.38 - 1 Holder
Holders with more than 20%

Holder Name	Holding	% IC
GH Partners LLC	72,941	100.00%

5,000,000 Options expiring 17 July 2023 @ $0.50 - 3 Holders
Holders with more than 20%

Holder Name	Holding	% IC
Evolution Capital Advisors PTY Ltd	2,600,000	52.00%
Elsie Cameron Foundation	2,000,000	40.00%

8,901,175 Options expiring 19 September 2024 @ $1.20 - 10 Holders
Holders with more than 20%

Holder Name	Holding	% IC
National Nominees Ltd	3,529,411	39.65%
CS Third Nominees PTY Limited	2,117,646	23.79

9,292,115 Warrants @ $0.85 - 1 Holder
Holders with more than 20%

Holder Name	Holding	% IC
Pure Asset Management PTY Ltd	9,292,115	100.00%

ADDITIONAL
ASX INFORMATION

ON-MARKET BUY BACK (4.10.18)

There is currently no on-market buyback program.

ASX LISTING RULE (4.10.19)

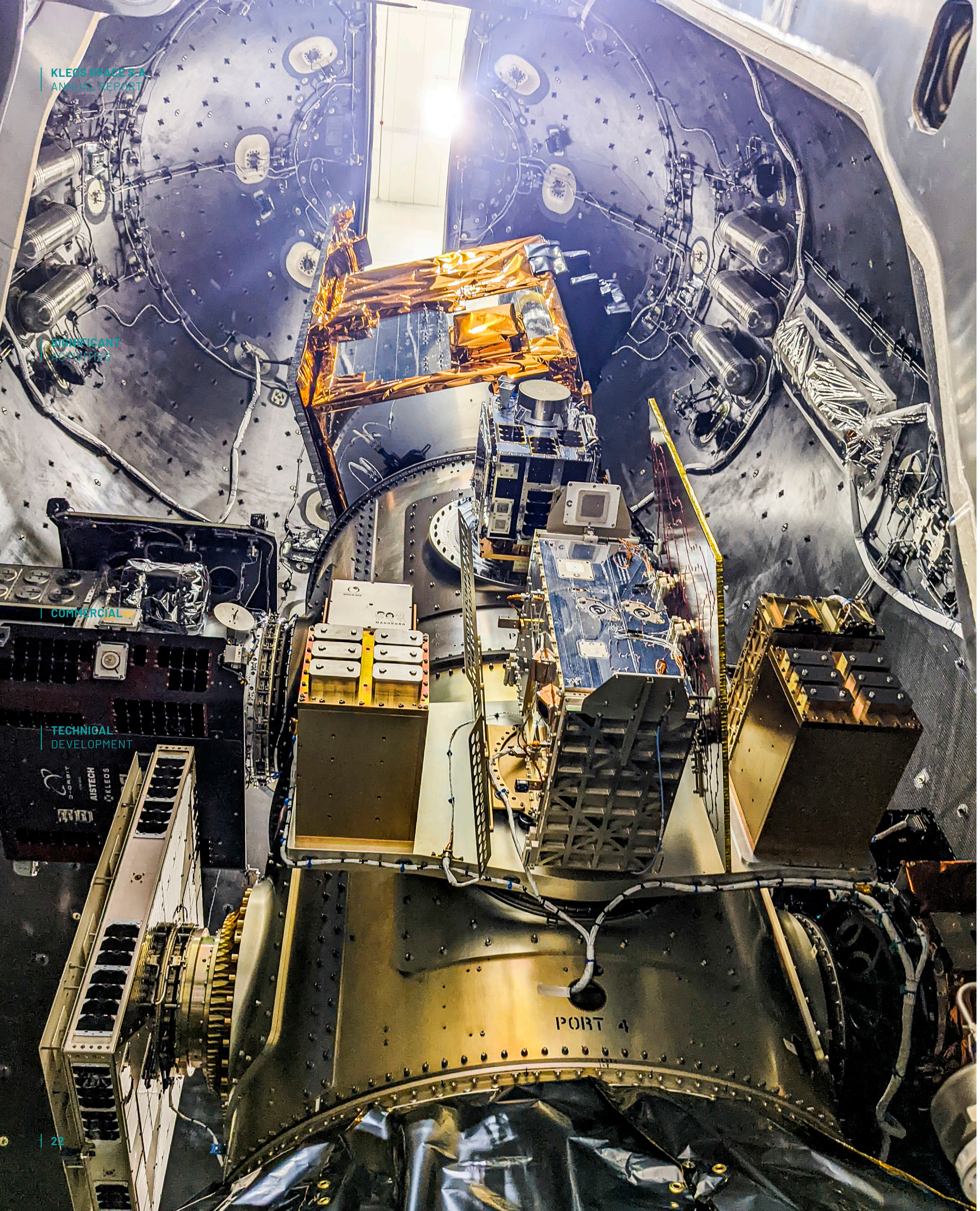
The Company has used cash and cash equivalents held at the time of listing, in a way consistent with its business objectives.

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 Corporate Governance Statement can be found here on the Investor page of the Company website:
https://kleos.space/investors/#documents

Significant Activities



Kleos' low earth orbit satellites detect and geolocate radio frequency transmissions to improve the Intelligence, Surveillance, and Reconnaissance (ISR) capabilities of governments and commercial entities. Sold as-a-service to qualified subscribers, Kleos' precision geolocation data enhances the detection of illegal activity, including piracy, drug and people smuggling, border security challenges and illegal fishing. Kleos' data can be used to establish a baseline pattern of behaviour, send alerts, or tip and cue other commercial data sets to improve situational awareness.

During the year, Kleos was awarded a first stage contract from the US National Reconnaissance Office as part of the Strategic Commercial Enhancements Broad Agency Announcement (SCE BAA) Framework. After a multiple-phase proposal process, Kleos was awarded the first stage contract under the NRO's SCE BAA Framework, focused on the analysis, modelling, and simulation of Kleos' capabilities to support the U.S. Government's current and future commercial radio frequency reconnaissance needs.

The NRO's SCE framework continuously evaluates new and emerging capabilities and providers. Under the contract, Kleos will provide insights into their capabilities, how Kleos may optimise evolving commercial RF geolocation capability to enhance and augment existing capabilities in a persistent, resilient, cost-effective manner that is also easily shareable across the U.S. Government, and with international partners and allies.

Kleos' DaaS business model has a low operational cost base and is highly scalable. Subscribers pay license fees to access the data, generating recurring revenues.

Kleos' raw satellite data is used to create fully processed radio frequency geolocation data (LOCATE), which is highly sought after by defence departments, national security agencies, coast guards and commercial entities. The Company's industry-leading digital signal processing capability is driving demand for Kleos' LOCATE product, which can be used as a standalone dataset or to tip and cue other commercial data.

Kleos' proprietary intelligence processing technology has advanced significantly during the year and now the Kleos LOCATE geospatial intelligence product can be produced from data collected from as few as two satellites in formation. This also presents the opportunity to ingest raw data from other sensors in addition to those owned by Kleos to produce the LOCATE product.

Together, these advancements enhance our product offering, and we believe it will accelerate the volume of intelligence available to our customers with a lower capex investment. These advancements are not only an asset, but they also significantly reduce execution risk in addition to potentially doubling the number of Kleos collecting clusters from 3 to 6. With more clusters of satellites, Kleos can potentially double the volume of raw data collected, with greater collect flexibility for further processing through the intelligence technology on the ground.

SIGNIFICANT ACTIVITIES

PARTNERSHIPS

DECEMBER 2022 - PARTNERSHIP WITH UP42

Kleos has partnered with leading geospatial developer platform and marketplace, UP42, to offer Kleos' RF geolocation data to their platform users. Under the partnership, Kleos' geospatial data product, Guardian LOCATE, will be available on UP42's marketplace. Guardian LOCATE provides processed geolocated radio frequency transmissions collected over key areas of interest by Kleos' satellites, enhancing the intelligence, surveillance, and reconnaissance (ISR) capabilities of users.

SEPTEMBER 2022 - CONTRACT AWARD BY NRO

Kleos has been awarded a first stage contract, from the National Reconnaissance Office (NRO) as part of the Strategic Commercial Enhancements Broad Agency Announcement (SCE BAA) Framework, focused on the analysis, modeling, and simulation of Kleos' capabilities to support the U.S. Government's current and future commercial radio frequency (RF) reconnaissance needs. The NRO's SCE framework continuously evaluates new and emerging capabilities and providers. Under the project, Kleos will provide insights into how to optimize evolving commercial RF geolocation capability to enhance and augment existing capabilities in a persistent, resilient, cost-effective manner that is also easily shareable across the U.S. Government, and with international partners and allies.

MAY 2022 - SUCCESSFUL EXECUTION OF CRADA

Kleos announces successful execution of a Cooperative Research and Development Agreement (CRADA) with the Naval Surface Warfare Center Division, Crane (NSWC Crane) for joint data experimentation. Under the CRADA agreement, Kleos will provide its radio frequency (RF) geolocation data in realistic test scenarios to improve maritime domain awareness for real-world challenges, including sanctions reporting, embargo, transshipment monitoring, search and rescue, resource management, fisheries control, smuggling, and border control.

FEBRUARY 2022 - PARTNERSHIP WITH SATELLOGIC

Kleos announces a partnership with with NASDAQ-listed geospatial analytics company Satellogic (NASDAQ: SATL) to pursue government and commercial tenders. Under the partnership, Kleos' RF data will be layered with other types of earth observation data as a comprehensive intelligence, surveillance, and reconnaissance (ISR) offering. The integrated datasets improve situational awareness and provide critical insights, which enable decision-making at scale for government customers.

JANUARY 2022 - DATA EVALUATION CONTRACT SIGNED WITH AGIS

Kleos receives a data evaluation contract from Advanced Ground Information Systems, Inc. (AGIS). AGIS simultaneously processes up to 200,000 real-time sensor reports to provide command and control communication capabilities to US military, government and first responders. Its Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR) system enables data interoperability between U.S. and NATO C5ISR systems to provide a common operational picture. AGIS' C5ISR system will be using Kleos' electronic intelligence (ELINT) data to complement other intelligence data sources to provide hostile and illegal shipping awareness to its customers with the ability to direct forces.

SIGNIFICANT ACTIVITIES

LEADERSHIP CHANGES

LEADING INDUSTRY EXECUTIVE DAWN HARMS NOMINATED AS AN INDEPENDENT DIRECTOR TO THE BOARD

On May 17, 22, Kleos announced that its Board of Directors nominated highly experienced space industry executive Ms Dawn Harms as an Independent Non-Executive Director for consideration at its upcoming AGM.

US-based Ms Harms has extensive space experience at an operational, management and board level, and is currently the Chief Revenue Officer at NASDAQ-listed Momentus Inc (MNTS).

Her previous roles include Vice President of Global Sales and Marketing at Boeing Satellite Systems International, Vice President Sales and Marketing at International Launch Services (ILS), and Principal at the space systems consulting firm Space Architectures LLC. Ms. Harms spent a vast proportion of her career as Vice President Marketing and Sales at Space Systems Loral (now Maxar) – a role she held for 22 years.

Directors' Report, Responsibility Statement, Financial Statements as at and for the year ended 31 December 2022 and the Report of the Réviseur d'Entreprises Agréé

ARBN 625 668 733 / RCS B215591

PRINCIPLE PLACE OF BUSINESS:

Luxite Two
7, Rue de l'Innovation
L-1896 Kockelscheuer
Luxembourg

REGISTERED OFFICE:

Boardroom Pty Ltd
Level 12, 225 George Street
Sydney
NSW 2000
Australia

CAPITAL:

CHESS Depository Interests - Number of CDIs on issue at reporting date (24 February 2023) 178,525,876.

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on 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 'Group') at the end of, or during, the year ended 31 December 2022.

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:

- Peter Round
- Andrew Bowyer
- David Christie
- Dawn Harms (Appointed on 27 May 2022)
- Padraig McCarthy (Resigned on 27 May 2022)

PRINCIPLE ACTIVITIES

The principal activity of the Group during the financial year was to undertake the development of the Space enabled, RF Geospatial Intelligence, data products. The Group aims to guard borders, protect assets and save lives by delivering a RF activity-based intelligence and geolocation service.

Kleos' low earth orbit satellite constellation collects data that enables the detection and geolocation of radio frequency transmissions to improve the Intelligence, Surveillance, and Reconnaissance ('ISR') capabilities of governments and commercial entities. Sold as-a-service to qualified customers, Kleos' precision geolocation data enhances the detection of illegal activity, including piracy, drug and people smuggling, border security challenges and illegal fishing. Kleos' data can be used to establish a baseline pattern of behaviour, send alerts, or tip and cue other commercial data sets to improve situational awareness. During the year ended 31 December 2022, Kleos continued building a geographically diverse pipeline of government defence departments, national security entities, coast guards, and commercial entities.

Kleos is building a constellation (the Guardian Constellation) of clusters of satellites for optimal coverage over key areas of interest. Each new cluster significantly increases Kleos' data collection capability and improves revisit rates over key areas of interest, providing customers with more accurate, and timely, intelligence. Increased data collection capacity increases the Group's revenue opportunities.

Satellite collections are downlinked to Earth and then processed using Kleos' proprietary algorithms to deliver frequency, time, latitude, longitude and Earth-Centered Earth Fixed ('ECEF') co-ordinates of radio frequency transmissions as the Kleos geospatial intelligent data product; Guardian LOCATE.

The current Guardian Constellation is formed of the following:

The Scouting Mission (KSM1)

Launched into a 37-degree orbit in November 2020, Kleos' Scouting Mission satellites is the world's first four satellite cluster flown in a formation that was intended to be the demonstrator for the constellation, used for testing and development of the Signal & Geospatial Intelligence intellectual property. The Scouting mission came to the end of its useful life in 2022 due to technical issues and is being de-orbited.

The Vigilance Mission (KSF1)

In June 2021, Kleos successfully launched its Vigilance Mission (KSF1) satellites aboard the Spaceflight SXRS- 5/SpaceX Transporter-2 Mission. Deployed into a 525km Sun Synchronous orbit from Cape Canaveral in Florida, Kleos' second satellite cluster broadens its global coverage range and data collection capability. The cluster became operational in February 2023.

The Patrol Mission (KSF2)

Kleos' Patrol Mission satellites were launched in April 2022 onboard the SpaceX Transporter-4 Mission, they have been deployed into orbit and are expected to complete commissioning in 2023.

The Observer Mission (KSF3)

Kleos Observer Mission satellites launched on the Transporter-6 SpaceX mission in January 2023 and is also expected to complete commissioning in 2023.

The Group's 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.

DIVIDENDS

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

REVIEW OF OPERATIONS

The loss for the Group after providing for income tax amounted to €7,309,359 (31 December 2021: €6,367,810).

The loss for the Company after providing for income tax amounted to €7,382,677 (31 December 2021: €6,554,130).

As a result of the loss incurred and the operating cash outflows during the year ended 31 December 2022, and until the Group can raise additional funds to meet future liquidity needs, there is a material uncertainty on whether the Group can continue as a going concern. The directors consider that the Group will continue as a going concern as explained in note 2 to the financial statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year the Group has:

- Diversified its business model to include a Mission-as-a-Service ('MaaS') offering, providing customers with exclusive access to Kleos' dedicated, in-orbit radio frequency reconnaissance satellite clusters for fixed periods of time and capacity;
- Successfully launched the third cluster of four satellites, Patrol Mission, which is the Company's most advanced satellite cluster to date;
- Increased cash receipts to **€1.3 million** for 2022;
- Assessed the impairment of two KSM1 demonstrator cluster satellites which experienced a technical malfunction. Subsequent to an extensive technical review including consultation with the supplier and a review of possible performance mitigations, in August 2022 it was concluded that these two satellites could no longer perform their mission. Because these satellite failures reduced the cluster's capabilities, all four satellites have been impaired at this stage. As explained in note 16 to the financial statements, the Company has therefore accounted for an impairment of **€2,994,919** in the first six months of 2022, relating to satellite equipment in use;
- Strengthened the Company's access to seasoned executives with the appointment of Dawn Harms to the Board of Directors;
- Assessed the impairment of the KSF1 and KSF2 clusters. Subsequent to an extensive technical review it was concluded that two satellites, KSF1-C and KSF2-B are to be impaired, for a total impairment of **€1,488,324** (€741,140 and €747,184 respectively), at 31 December 2022;
- Furthermore, due to the technical anomalies experienced by the KSF1 cluster, it is unlikely that three of the four satellites will be able to participate in the planned orbit raise. Consequently the useful life of KSF1 will decrease from five year to 18 months; and
- Obtained four-year, A$10 million financing from Pure Asset Management currently bearing interest at 12% per annum (note 22).

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 1 January 2023 Alan Khalili was appointed as CEO and has been granted three million options, with a strike price of A$0.20 per option, under a long-term incentive plan.

As announced on 31 January 2023, the Company issued a placement of 12,500,000 CDIs at A$0.20 per CDI to raise additional capital of A$2.5 million (€1.6 million) in February 2023.

KSF3 was launched in January 2023. KSF1 became operational in February 2023.

As at 31 January 2023 the cash balance held by the Group was €1,016,521. Under the financial covenants of the facility agreement entered into with Pure Asset Management in August 2022, the Group is to maintain a cash balance greater than €1.25 million prior to the second utilisation date (30 June 2023). After the aforementioned capital raise, the Group is no longer in breach of the financial covenants.

The Group's spectrum licence expired in December 2022, with a two-month extension granted until February 2023 by the Luxembourg Space Agency. The Group was granted a second extension through 17 March 2023. The Group is confident that the issue will be resolved timely. Further details are contained within note 2 under going concern.

In January 2023 the satellite manufacturer informed the Company that KSF1 orbit raise must be initiated by May-June 2023 to preserve the satellites designed commercial life. It is unlikely that an orbit raise will be able to happen for KSF1. Therefore the orbit raise will not be initiated for KSF1 and their useful lives will decrease to 18 months.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company continues to make significant progress in the development of its satellite constellation, with the following clusters at various stages of development and operations:

i *Vigilance Mission (KSF1)*

Kleos was informed by the satellite manufacturer in January 2023 that KSF1 must initiate an orbit raise in the next 3 months in order to preserve their designed commercial life. If a raise is not initiated within that window, their orbits will decay and their remaining useful lives will be reduced to approximately 18 months. The Company has decided it is in the best interest of the business to not perform the orbit raise and allow the orbits to decay, therefore shortening the life of these satellites. This cluster became operational in February 2023.

ii *Patrol Mission (KSF2)*

Kleos' Patrol Mission satellites The satellites are now being moved into their final cluster formation, and bus and payload commissioning is ongoing. It is expected that the cluster will become operational in Q2-2023.

iii *Observer Mission (KSF3)*

The Observer mission satellites launched in January 2023. The Observer Mission is anticipated to be brought into operational use during Q3-2023.

ENVIRONMENTAL REGULATION

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

The Group 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 Group has obtained from the ILR a licence for the use of electronic communications networks/services. From an international regulatory perspective, the Group has registered with the International Telecommunication Union ('ITU').

The Group's spectrum licence expired in December 2022, with a two-month extension granted until February 2023 by the Luxembourg Space Agency. The Group was granted a second extension through 17 March 2023. The Group is confident that the issue will be resolved timely. Further details are contained within note 2 under going concern.

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
17/07/2020	17/07/2023	0.50	5,000,000
17/07/2020	17/07/2030	0.20	350,000
15/09/2021	15/09/2024	1.20	8,901,175
11/10/2021	11/10/2031	0.20	707,500
29/06/2022	29/06/2032	0.20	832,500
28/10/2022	28/10/2032	0.20	450,000
			16,241,675

UNISSUED CDIs FOR EQUITY-SETTLED TRANSACTIONS

The Company did not enter into any transactions in 2022 for goods and services with a commitment to settlement by the issuance of CDIs.

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	0.38	3,319,125
06/07/2020*	06/07/2023	0.38	2,285,381
10/08/2022**	04/08/2026	0.75	9,292,115
15/09/2021	15/09/2031	0.85	72,941
			14,969,562

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

** *Warrants issued to Pure Asset Management as part of the loan agreement executed on 10 August 2022*

CDIs ISSUED ON THE EXCERCISE OF OPTIONS

The following ordinary CDIs of Kleos Space S.A. were issued during the year ended 31 December 2022 and up to the date of this report on the exercise of options granted:

Date Options Granted	Exercise Price A$	Exercise Price €	Number of CDIs Issued
06/09/2019	0.40	0.2513	100,000
17/07/2020	0.20	0.1272	32,500
			132,500

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 2022 and up to the date of this report.

ACQUISITION BY THE COMPANY OF ITS OWN STOCK AND CDIs

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

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 €3,415 (2021: €238,908) recorded under the heading Research and development expenses in the Statement of profit or loss and other comprehensive income.

The Company has capitalised €495,927 of development costs.

ALLOCATION OF LOSS FOR THE FINANCIAL YEAR

The Company resolved to carry forward the loss for the year ended 31 December 2022 amounting to €7,382,677.

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to certain financial risks i.e., market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects in the financial performance of the Group.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risk to which the Group 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 2022, the Company made payments to Kleos Space Ltd amounting to €1,047,730 (2021: €790,455). An amount of €106,526 was due to the subsidiary as at 31 December 2022 (2021: €119,573).

During the year ended 31 December 2022, the Company made payments to Kleos Space Inc. amounting to €2,000,102 (2021: €1,616,128). An amount of €519,768 was due to the subsidiary as at 31 December 2022 (2021: due from the subsidiary €1,575).

During the year ended 31 December 2022, the Company made payments to Kleos Space Asia Pacific Pty Ltd. amounting to €85,653 (2021: €25,273). An amount of €6,880 was due to the subsidiary as at 31 December 2022 (2021: due from the subsidiary €25,273).

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 in case of gross negligence or wilful misconduct.

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.

AUDITOR

Ernst & Young was appointed as auditor during the year and continues in office in accordance with article 18 of the Company's Articles of association, article 443-1 of the law of 10 August 1915 on commercial companies, as amended, and article 69 of the law on the register of commerce and companies and the accounting and annual accounts of undertakings.

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

On behalf of the directors

Andy Bowyer

ANDY BOWYER
Director

24 February 2023
Luxembourg

RESPONSIBILITY
STATEMENT

We confirm to the best of our knowledge that:

1. There are reasonable grounds to believe that Kleos Space S.A. will be able to pay its debts as and when they become due and payable;
2. The consolidated 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 consolidated financial position and consolidated results of Kleos Space S.A. and the undertakings included within the consolidation taken as a whole; and
3. *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.*

On behalf of the directors

ANDY BOWYER
Director

24 February 2023
Luxembourg

Financial Statements

31 DECEMBER 2022

STATEMENTS
31 DECEMBER 2022

PROFIT OR LOSS
& OTHER COMPREHENSIVE INCOME

	Note	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Revenue					
Revenue from contracts with customers	5	272,099	-	-	-
Government grants and other revenue	5	-	125,528	-	110,300
		272,099	125,528	-	110,300
Cost of goods sold		(396,612)	-	(247,555)	-
Gross margin		(124,513)	125,528	(247,555)	110,300
Operating Expenses					
Employee benefit expenses	6	(4,147,261)	(2,963,908)	(1,406,374)	(1,060,963)
Research and development expenses		(3,415)	(238,908)	(3,415)	(238,908)
Other operating expenses	7	(1,811,067)	(1,556,505)	(4,698,813)	(3,634,714)
Net Foreign exchange gain		182,926	164,761	183,443	164,766
Other expenses		(79,326)	(122,137)	(76,116)	(119,876)
Total operating expenses		(5,858,143)	(4,716,697)	6,001,275	(4,889,695)
Depreciation expense	8	(832,899)	(768,867)	(816,549)	(768,867)
Impairment of assets	16	(4,483,243)	-	(4,483,243)	-
Operating Loss		(11,298,798)	(5,360,036)	(11,548,622)	(5,548,262)
Finance Income (expense)					
Change in fair value of derivative financial instruments	24	4,315,076	(721,536)	4,315,076	(721,536)
Finance income	9	245,385	-	245,385	-
Finance costs	9	(401,154)	(284,332)	(394,516)	(284,332)
Loss before income tax expense		(7,139,491)	(6,365,904)	(7,382,677)	(6,554,130)
Income tax expense	11	(169,868)	(1,906)	-	-
Loss after income tax expense for the year attributable to the owners of Kleos Space S.A.		(7,309,359)	(6,367,810)	(7,382,677)	(6,554,130)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation		18,744	(6,720)	-	-
Other comprehensive income for the year, net of tax		18,744	(6,720)	-	-
Total comprehensive incoome for the year attributable to the owners of Kleos Space S.A.		(7,290,615)	(6,374,530)	(7,382,677)	(6,554,130)
		Cents	**Cents**	**Cents**	**Cents**
Basic earnings per CDI	12	(4.098)	(3.846)	(4.139)	(3.959)
Diluted earnings per CDI	12	(4.098)	(3.846)	(4.139)	(3.959)

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

STATEMENTS
31 DECEMBER 2022

FINANCIAL
POSITION

	Note	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Assets					
Current assets					
Cash and cash equivalents	13	1,760,052	5,785,178	1,607,263	5,648,330
Trade receivables and other current assets	14	1,117,733	1,285,348	982,879	1,257,096
Total current assets		2,877,785	7,070,526	2,590,142	6,905,426
Non-current assets					
Shares in subsideries	15	-	-	204	204
Property, plant and equipment	16	6,531,332	9,374,281	6,523,629	9,374,281
Right-of-use assets	17	174,878	139,471	90,246	139,471
Intangibles assets	18	794,758	298,831	764,758	298,831
Total non-current assets		7,500,968	9,812,583	7,408,837	9,812,787
Total assets		10,378,753	16,883,109	9,998,979	16,718,213
Liabilities					
Current liabilities					
Trade and other payables	19	406,764	485,019	896,684	585,624
Accrued expenses	20	779,851	574,048	479,315	567,682
Contract liabilities	21	946,878	-	900,000	-
Borrowings	22	36,522	72,862	36,522	72,862
Lease liabilities	23	73,484	43,139	54,136	43,139
Derivative financial instruments	24	295,973	3,314,709	295,973	3,314,709
Income tax payable		54,156	-	-	-
Provisions	25	34,021	-	-	-
Other current liabilities		4,958	6,963	2,904	2,148
Total current liabilities		2,632,607	4,496,740	2,665,534	4,586,164
Non-current liabilities					
Borrowings	22	2,443,913	73,595	2,443,913	73,595
Lease liabilities	23	121,682	109,499	55,363	109,499
Total non-current liabilities		2,565,595	183,094	2,499,276	4,586,164
Total liabilities		5,198,202	4,679,834	5,164,810	4,769,258
Net assets		5,180,551	12,203,275	4,834,169	11,948,955
Equity					
Contributed equity	26	28,486,307	28,456,260	28,486,307	28,456,260
Reserves	27	647,594	391,006	635,446	397,602
Accumulated losses		(23,953,350)	(16,643,991)	(24,287,584)	(16,904,907)
Total equity		5,180,551	12,203,275	4,834,169	11,948,955

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

STATEMENTS 31 DECEMBER 2022
CHANGES IN EQUITY

	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Consolidated				
Balance at 1 January 2021	21,867,982	265,402	(10,276,181)	11,857,203
Loss after income tax expense for the year	-	-	(6,367,810)	(6,367,810)
Other comprehensive loss for the year, net of tax	-	(6,720)	-	(6,720)
Total comprehensive loss for the year	-	(6,720)	(6,367,810)	(6,374,530)
Transactions with owners in their capacity as owners:				
Issue of CDIs **(note 26)**	8,034,500	-	-	8,034,500
Unissued CDIs for equity-settled transactions **(note 26)**	337,600	-	-	337,600
Issue of CDIs - exercise of options **(note 26)**	533,915	-	-	533,915
Transaction costs, net of tax **(note 26)**	(558,537)	-	-	(558,537)
Deduction from proceeds **(note 26)**	(1,759,200)	-	-	(1,759,200)
Share-based payments **(note 27)**	-	132,324	-	132,324
Balance at 31 December 2021	28,456,260	391,006	(16,643,991)	12,203,275

	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Consolidated				
Balance at 1 January 2022	28,456,260	391,006	(16,643,991)	12,203,275
Loss after income tax expense for the year	-	-	(7,309,359)	(7,309,359)
Other comprehensive income for the year, net of tax	-	18,744	-	18,744
Total comprehensive income (loss) for the year	-	18,744	(7,309,359)	(7,290,615
Transactions with owners in their capacity as owners:				
Issue of CDIs **(note 26)**	789	-	-	789
Issue of CDIs - exercise of options **(note 26)**	29,258	-	-	29,258
Share-based payments **(note 27)**	-	237,844	-	237,844
Balance at 31 December 2022	28,486,307	647,594	(23,953,350)	5,180,551

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

STATEMENTS 31 DECEMBER 2022
CHANGES IN EQUITY

	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Company				
Balance at 1 January 2021	21,867,982	265,278	(10,350,777)	11,782,483
Loss after income tax expense for the year	-	-	(6,554,130)	(6,554,130)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(6,554,130)	(6,554,130)
Transactions with owners in their capacity as owners:				
Share-based payments **(note 36)**	-	132,324	-	132,324
Issue of CDIs **(note 26)**	8,034,500	-	-	8,034,500
Unissued CDIs for equity-settled transactions **(note 26)**	337,600	-	-	337,600
Issue of CDIs - exercise of options **(note 26)**	533,915	-	-	533,915
Transaction costs, net of tax **(note 26)**	(558,537)	-	-	(558,537)
Deduction from proceeds **(note 26)**	(1,759,200)	-	-	(1,759,200)
Balance at 31 December 2021	28,456,260	397,602	(16,904,907)	11,948,955

	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Company				
Balance at 1 January 2022	28,456,260	397,602	(16,904,907)	11,948,955
Loss after income tax expense for the year	-	-	(7,382,677)	(7,382,677)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(7,382,677)	(7,382,677)
Transactions with owners in their capacity as owners:				
Issue of CDIs **(note 26)**	789	-	-	789
Issue of CDIs - exercise of options **(note 26)**	29,258	-	-	29,258
Share-based payments **(note 27)**	-	237,844	-	237,844
Balance at 31 December 2021	28,486,307	635,446	(24,287,584)	4,834,169

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

	Note	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Cash flows from operating activities					
Receipts from customers		1,327,569	-	1,053,000	-
Receipts from government grants		58,740	-	58,740	-
Receipts from resale of launch services		-	167,900	-	167,900
Payments for launch services		-	(135,920)	-	(135,920)
Payments to suppliers		(2,669,451)	(2,256,658)	(1,943,655)	(1,841,322)
Payments to employees		(2,980,709)	(2,831,584)	(748,786)	(928,639)
Receipts from other income		-	15,228	-	-
Interest paid		(206,514)	(102,300)	(200,277)	(102,300)
Income taxes paid		(228,975)	(1,906)	(120,586)	-
Net cash used in operating activities	35	(4,699,340)	(5,145,240)	(1,901,564)	(2,840,281)
Cash flows from investing activities					
Payments for property, plant and equipment	16	(2,405,581)	(4,195,756)	(2,405,581)	(4,195,756)
Payments for intangibles assets	18	(630,965)	(298,831)	(336,150)	(298,831)
Payments for deposits		(3,812)	-	-	-
Payments to related parties		(301)	-	(3,133,485)	(2,431,856)
Net cash used in investing activities		(3,040,659)	(4,494,587)	(5,875,216)	(6,926,443)
Cash flows from financing activities					
Proceeds from issue of CDI's	26,35	28,300	8,384,665	28,300	8,384,665
CDI's issued - transaction costs	26	-	(428,665)	-	(428,665)
Proceeds from borrowings - Luxembourg Ministry of the Economy	35	(36,340)	-	(36,340)	-
Net payments from borrowings - Winance	35	-	(3,319,643)	-	(3,319,643)
Proceeds from borrowings - Pure Asset Management PTY Ltd	35	4,068,745	-	4,068,747	-
Transaction costs on borrowings	35	(281,853)	-	(281,853)	-
Repayment of lease liabilities	35	(57,179)	-	(43,139)	-
Net cash used in financing activities		3,721,673	4,636,357	3,735,713	4,636,357
Net decrease in cash and cash equivalents		(4,018,326)	(5,003,470)	(4,041,067)	(5,130,367)
Cash and cash equivalents at the beginning of the financial year		5,785,178	10,787,963	5,648,330	10,778,697
Effects of exchange rate changes on cash and cash equivalents		(6,800)	685	-	-
Cash and cash equivalents at the end of the financial year	13	1,760,052	5,785,178	1,607,263	5,648,330

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

Notes to the Financial Statements

31 DECEMBER 2022

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 'Group') 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:	PRINCIPLE PLACE OF BUSINESS:
Boardroom Pty Ltd	Luxite Two
Level 12, 225 George Street	7, Rue de l'Innovation
Sydney, NSW 2000	L-1896 Kockelscheuer
Australia	Luxembourg

The principal activity of the Group during the financial year was to undertake the development of the Space enabled, RF Geospatial Intelligence, data products. The Group aims to guard borders, protect assets and save lives by delivering a RF activity-based intelligence and geolocation service.

Kleos' low earth orbit satellite constellation collects data that enables the detection and geolocation of radio frequency transmissions to improve the Intelligence, Surveillance, and Reconnaissance ('ISR') capabilities of governments and commercial entities. Sold as-a-service to qualified customers, Kleos' precision geolocation data enhances the detection of illegal activity, including piracy, drug and people smuggling, border security challenges and illegal fishing. Kleos' data can be used to establish a baseline pattern of behaviour, send alerts, or tip and cue other commercial data sets to improve situational awareness. During the year ended 31 December 2022, Kleos continued building a geographically diverse pipeline of government defence departments, national security entities, coast guards, and commercial entities.

Kleos is building a constellation (the Guardian Constellation) of clusters of satellites for optimal coverage over key areas of interest. Each new cluster significantly increases Kleos' data collection capability and improves revisit rates over key areas of interest, providing customers with more accurate, and timely, intelligence. Increased data collection capacity increases the Group's revenue opportunities.

Satellite collections are downlinked to Earth and then processed using Kleos' proprietary algorithms to deliver frequency, time, latitude, longitude and Earth-Centered Earth Fixed ('ECEF') co-ordinates of radio frequency transmissions as the Kleos geospatial intelligent data product; Guardian LOCATE.

NOTE 1 CONTINUED

The current Guardian Constellation is formed of the following:

The Scouting Mission (KSM1)

Launched into a 37-degree orbit in November 2020, Kleos' Scouting Mission satellites is the world's first four satellite cluster flown in a formation that was intended to be the demonstrator for the constellation, used for testing and development of the Signal & Geospatial Intelligence intellectual property. The Scouting mission came to the end of its useful life in 2022 and is being de-orbited. This cluster was fully impaired during the first half of 2022.

The Vigilance Mission (KSF1)

In June 2021, Kleos successfully launched its Vigilance Mission (KSF1) satellites aboard the Spaceflight SXRS- 5/SpaceX Transporter-2 Mission. Deployed into a 525km Sun Synchronous orbit from Cape Canaveral in Florida, Kleos' second satellite cluster broadens its global coverage range and data collection capability. This cluster became operational in February 2023. During 2022, one satellite within this cluster was impaired (see note 16 for additional discussion). This impairment will not impact the Company's ability to meet the commercial needs of customers.

The Patrol Mission (KSF2)

Kleos' Patrol Mission satellites were launched in April 2022 onboard the SpaceX Transporter-4 Mission, they have been deployed into orbit and are expected to complete commissioning in 2023. During 2022, one satellite within this cluster was impaired (see note 16 for additional discussion). This impairment will not impact the Company's ability to meet the commercial needs of customers.

The Observer Mission (KSF3)

Kleos Observer Mission satellites launched on the Transporter-6 SpaceX mission in January 2023 and is also expected to complete commissioning in 2023.

The Group's 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 ___ February 2023. In accordance with Luxembourg law, CDI holders have the power to amend and reissue the financial statements.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN 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.

BASIS OF PREPERATION

These general purpose financial statements have been prepared in accordance with International Financial Reporting Standards issued by International Accounting Standards Board ('IASB') and adopted by the European Union ('IFRS'), as at 31 December 2022.

Historical cost convention
The financial statements have been prepared under the historical cost convention except for derivative financial instruments measured at fair value.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group'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.

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Group and the Company have applied for the first time all of the new or amended Accounting Standards, Interpretations and amendments issued by the International Accounting Standards Board ('IASB') that are effective for the current reporting period and have been endorsed by the European Union. The Group and the Company have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the Group and the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

Several other amendments apply for the first time in 2022, but do not have an impact on the financial statements of the Group and the Company.

NOTE 2
CONTINUED

GOING CONCERN

These 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 2022, the Group incurred a net loss of **€7,309,359** (2021: €6,367,810). As at 31 December 2022, the Group had net current assets of **€245,178** (2021: €2,573,786) and cash and cash equivalents of **€1,760,052** (2021: €5,785,178).

During the year ended 31 December 2022, the Company incurred a net loss of **€7,382,677** (2021: €6,554,130). As at 31 December 2022, the Company had net current liabilities of **€75,392** (2021: net current assets of €2,319,262) and cash and cash equivalents of **€1,607,263** (2021: €5,648,330).

The Company has made significant progress over the last several months, with 3 clusters of satellites in orbit (KSF1 became operational in February 2023 and KSF2 and KSF3 will become operational later in the year), and a strong pipeline of customers. With 3 clusters set to be providing data in 2023, the Company is in a strong position and is very close to realising its objectives and ability to scale revenues on the fixed investments made in the Company.

During the period ended December 31, 2022, the Company recognised a €1.4 million impairment related to KSF1-C and KSF2-B. In addition, it recognised an impairment of €2.9 million related to KSM. The impairment of the KSF1-C and KSF2-B satellites are not expected to have an impact on the future commercial service to be provided by these clusters (See note 16 for further discussion regarding the status and health of the satellites). For the KSM cluster, these satellites were intended to be the initial demonstrator cluster for the larger constellation. While a small and immaterial amount of revenue was raised from trial subscriptions, no commercially priced contracts were entered into in respect of data received from KSM.

In addition, the Company raised capital during February 2023 with net proceeds of €1.4 million over two tranches. Of that amount, €1.0 million from tranche one has been received, and the remaining €0.4 million from tranche two is expected to settle by 28 February 2023. The Company aims to further raise at least €4.2 million combined in two follow on tranches. Success with these future capital raises will be largely impacted by the successful transitioning of KSF1 into operations and the Company's ability to bring the remaining satellites into use. In order to close the second €2.8 million tranche (out of the €4.2 million referred to above), Kleos will also need to obtain shareholder approval to issue shares in a private placement. Kleos plans to have their AGM in late March/ early April to obtain this approval in sufficient time to raise capital needed. Kleos has been successful in raising funds when needed in the past and believes that past performance is an indicator of potential for future success. During this most recent capital raise, Kleos was not able to prove the satellites were operational as it did not reach the operational service date for KSF1 until after the capital raise was complete, making it more challenging to optimise the capital raise.

NOTE 2
CONTINUED

This should not be the case with a future raise as KSF1 is now operational. The LOCATE service is successfully downloading data today and this data is being provided to both current and potential future customers. Until the Company can raise additional funds to meet the cashflow requirements of the Group, uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The expiration of the Company's spectrum license in December 2022 represents an administrative risk for Kleos. Due to new laws, now enhanced background checks are required for all executives, board members, and shareholders with a holding of more than 10%. The translation of the criminal record check required by the Luxemburgish law (casier judiciaire - bulletin no. 3) did not match the criminal record checks of other countries. Due to the complexity and difference in approach in different countries for such checks the LSA has granted Kleos Space with a 2-month extension (expiring at the end of February 2023). The Company is in regular contact with government officials, regulators, and Kleos' lawyers to work through this issue and are all working together in good faith. The Company has been granted a second extension until 17 March 2023 and is confident this issue will be resolved timely.

The Company is required to maintain a cash balance in excess of €1.25 million in accordance with the PURE loan covenants (note 22). The Company has violated this covenant as of the end of January. The ramification of this violation is that Kleos needs to cure with a capital raise, which happened in February 2023.

Having considered all of the above factors, the directors believe that the Group will be able to continue as a going concern for at least 12 months from approval of these financial statements. The Group has currently planned generation of significant revenue and raising of additional equity funding in its budget and forecast for 2023 and 2024. However, despite the good progress made in 2022, until KSF 2 and KSF 3 are fully operational, delivering commercial services having completed commissioning and in-orbit testing, the uncertainty about the ability of the Company to generate revenue from customers and to raise additional funding indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

In addition, in accordance with article 480-2 (formerly article 100) of the Luxembourg Company Law of 10 August 1915 (as subsequently amended) and because accumulated losses exceed three quarters of the share capital as at 31 December 2022, the Board of Directors included in the agenda of the Annual Shareholders Meeting approving the 2022 financial statements the decision upon the continuation of the Company. The Annual Shareholders Meeting of May 27, 2022, already decided upon the continuation of the Company. Accumulated losses exceeded 75% of the share capital at the end of September 2022. A shareholder meeting was held to consider this matter in November 2022 and the decision was made to continue operations.

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 Group be unable to continue as a going concern.

NOTE 2
CONTINUED

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kleos Space S.A. as at 31 December 2022 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 Group 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 Group 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 when the right to receive the dividend is established and its receipt may be an indicator of an impairment of the investment.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions
These financial statements are presented in Euros, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method. 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

NOTE 2
CONTINUED

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

REVENUE RECOGNITION

The Group recognises revenue as follows:

Provision of Data
Licence fees for the access to data are recognised over time, being on a straight-line basis over the licence period, when the right to access is satisfied in accordance with the terms of the contract.

Over time
If the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date, then revenue is recognised over time in accordance with IFRS 15.

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.

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

GOVERNMENT GRANTS

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants are recognised in profit or loss as revenue on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants whose primary condition is that the Group 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.

NOTE 2
CONTINUED

INCOME TAX

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

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.

Sales tax
Expenses and assets are recognised net of the amount of sales tax, except:

NOTE 2
CONTINUED

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- when receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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 Group'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 Group'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. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

RECEIVABLES

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). 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 Group 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.

NOTE 2
CONTINUED

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Receivables are measured at amortised cost using the effective interest rate method, less any allowance for expected credit losses.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value through the statement of profit or loss at each reporting date.

The fair value of derivative financial instruments, which are contracted in relation to obtaining debt or raising equity, at grant date is accounted for as a cost of obtaining the debt or equity.

The cost of the debt is amortised as a finance cost over the loan period using the effective interest rate method while cost of equity is accounted for as a transaction cost of equity.

Derivatives are classified as current or non-current depending on the expected period of realisation.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Investment in subsidiaries are recognised at cost.

IMPAIRMENT OF FINANCIAL ASSETS

The Group 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 Group'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.

NOTE 2
CONTINUED

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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
Satellites & ground station equipment	1.5 to 5 years

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 Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

RIGHTS-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 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 Group 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 Group 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.

NOTE 2
CONTINUED

INTANGIBLES ASSETS

Development Costs
The Group recognises as an expense all research costs and costs associated with maintaining intangible assets.

Costs that are directly attributable to the design, development and testing of identifiable intangible assets controlled by the Group are recognised as an intangible asset if and only if all of the following criteria are met.

1. *it is technically feasible to complete the intangible asset so that it will be available for use;*
2. *management intends to complete the intangible asset and use or sell it;*
3. *there is an ability to use or sell the intangible asset;*
4. *it can be demonstrated that the intangible asset will generate probable future economic benefits;*
5. *adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and*
6. *the expenditure attributable to the intangible asset during its development can be reliably measured.*

Directly attributable costs that are capitalised as part of the intangible asset include the costs of the employees working on the development. Research and other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Intangible assets are amortised over a maximum period of 5 years from the date that they become operational. Factors to consider when determining the amortisation period include:

- defined life of the intangible asset;
- planned or expected obsolescence of the intangible asset; and
- defined life of another asset to which the intangible asset is associated or linked.

Impairment reviews on each intangible asset are conducted annually by management.

NOTE 2
CONTINUED

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on the most recent budgets and forecast calculations, which are prepared separately for the Group's Cash Generating Unit ('CGU'). Currently the Group has two CGUs - KSM1 (fully impaired) and second CGU consisting of clusters KSF 1, 2 and 3. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the end of the period if appropriate.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

TRADE AND OTHER PAYABLES

Trade and other payables represent liabilities for goods and services provided to the Group 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.

NOTE 2
CONTINUED

CONTRACT LIABILITIES

Contract liabilities represents revenue which has been billed to customers for which the services are yet to be performed.

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 ('EIR').

After initial recognition, borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of 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 Group'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 are expensed in the period in which they are incurred.

NOTE 2
CONTINUED

PROVISIONS

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the CDI price at grant date, 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 Group receives the services that entitle the employees to receive options. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the

NOTE 2
CONTINUED

transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised over the remaining vesting period for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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, they are treated as if they had 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 the asset's highest and best use. Valuation techniques used to measure fair value are those that are appropriate in the circumstances and which maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

NOTE 2
CONTINUED

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.

CDIs issued upon the exercise of warrants or options are valued at the exercise price of the warrant or option less the cost ascribed to the respective warrants or options at the grant date.

EARNINGS PER CDI

Basic earnings per CDI
Basic earnings per CDI is calculated by dividing the profit or loss 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.

NOTE 2
CONTINUED

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

The new and amended standards and interpretations (that are applicable to the Group) issued, but not yet effective, up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group and the Company are currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

NOTE 2
CONTINUED

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group and the Company.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
In May 2021 the IASB issued amendments to IAS 12 concerning deferred tax related to assets and liabilities arising from a single transaction. The amendments address issues of inconsistency and interpretation in respect of the initial recognition exemption (IRE), whereby the IRE is not available for transactions that involve the recognition of both an asset and liability, to avoid capturing equal and opposite temporary differences.

The effective date of the amendments is for annual periods beginning on or after 1 January 2024 with earlier application permitted.

The amendments are not expected to have a material impact on the Group and the Company.

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.

JUDGEMENTS

Determining the lease term of contracts with renewal and termination options (note 23)
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

NOTE 3
CONTINUED

ESTIMATES AND ASSUMPTIONS

Estimation of useful lives of assets (note 16)
The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment (including satellite equipment) and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some technical anomalies. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Climate change
The Group has considered the impact of climate change on the business and determined that there will be no material impact on future revenues of the Group for the foreseeable future.

Impairment of non-financial assets (note 16)
The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. The impairment review involves assessing the value of the asset at fair value less costs of disposal and using value-in-use models which incorporate a number of key estimates and assumptions. In determining the fair value the Group normally uses the Discounted Cash Flows ('DCF') method with fair value being estimated using assumptions regarding the benefits and liabilities of ownership over the asset's or cash generating unit's lives including an exit or terminal value if appropriate. The duration of the cash flow and specific timing of inflows and outflows are determined by assumptions such as the useful life of the asset or the expected period of the cash generating unit, the technical health of the underlying assets, the potential revenue streams considering any customer contract backlog and customer leads, the Group's assessment of the future market opportunities and the ongoing costs and investments required to operate the underlying assets and cash generating units. The Group also performs a technical assessment of the condition of the satellites as a basis for its impairment test. Individual satellites are assessed, and if needed impaired, according to the technical assessment, even if the CGU's value-in-use exceeds the recoverable amount.

Development costs (note 18)
Development costs are not capitalised until the technical feasibility of completing the intangible asset has been achieved and until it is probable that the future economic benefits generated will flow to the Group. When such criteria are met, costs are capitalised.

Leases - Estimating the incremental borrowing rate (note 23)
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available

NOTE 3
CONTINUED

and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Fair value measurement hierarchy (note 30)
The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Share-based payment transactions (note 36)
The Group 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 Black Scholes 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.

NOTE 4

OPERATING SEGMENTS

Identification of reportable operating segments
The Group operates in one segment, 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.

As a result, the operating segment information is as disclosed in the financial statements and notes to the financial statements throughout the report.

Major customers
During the year ended 31 December 2022 approximately 61% (2021: nil%) of the Group's external revenue was derived from sales to the US Government.

NOTE 5

REVENUE

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Revenue from contracts with customers	272,099	-	-	-
Government Grants	-	78,320	-	78,320
Other revenue	-	47,208	-	31,980
	272,099	125,528	-	110,300

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

United Kingdom	105,289	-	-	-
Luxembourg	-	78,320	-	110,300
United States of America	166,810	47,208	-	-
	272,099	125,528	-	110,300

Timing of revenue recognition

Services transferred over time	272,099	125,528	-	110,300

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is for the provision of data.

Revenue from contracts with customers is measured in two different ways according to the nature of the contract:

- Contracts for the provision of data, whereby the performance obligation is satisfied over time once the customer is granted access to the data. In 2022 revenue recognised amounted to €105,289 (2021: €nil).
- €946,878 (2021: €nil) recorded as contract liabilities, whereby payment has been received in advance but the performance obligation has not yet been satisfied (note 21).
- Contracts where work performed is exclusively for that customer and the assets created have no alternative use to the Group, in which case revenue is recognised over time, amounting to €166,810 in 2022 (2021: €nil).

In both cases invoicing is according to contract schedules typically with 30 day payment terms.

NOTE 5
CONTINUED

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 and as a subcontractor to the program of another government. To the extent that all payments are made by the Agency against relevant milestone delivery, the Group 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. Accordingly, the Group recognised **€nil** (2021: €nil) of income from government grants in line with expenditure incurred during the year ended 31 December 2022 and accrued income of **€93,005** at 31 December 2022 (2021: **€93,005** (refer to note 14)).

OTHER REVENUE

In 2021 the Group recognised other revenue of **€47,208** which includes proceeds of **€167,900** from the re-sale of a portion of the launch services it contracted for the launch of the second cluster of satellites, less associated costs of **€135,920**.

NOTE 6

EMPLOYEE BENEFIT EXPENSES

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Salaries and benefits*	3,909,417	2,852,473	1,168,530	949,528
Share-based payments	237,844	111,435	237,844	111,435
	4,147,261	2,963,908	1,406,374	1,060,963

* **€495,927** *employee costs were capitalised during the year ended 31 December 2022 (refer to note 18) (2021: €298,831).*

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Annual average number of employees	23	22	10	8

NOTE 7

OTHER OPERATING EXPENSES

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Administration expenses	448,732	213,023	86,357	43,094
Consulting and professional fees	1,058,853	1,072,744	885,312	1,028,317
Payroll tax expense	83,800	77,366	-	-
Rent expenses	36,969	78,937	1,288	49,250
Travel expenses	182,713	114,435	62,886	53,742
Recharge by subsidiaries	-	-	3,662,970	2,460,311
	1,811,067	1,556,505	4,698,813	3,634,714

Consulting and professional fees
The consulting and professional fees for the year ended 31 December 2022 and 31 December 2021 includes, amongst others, external sales associates, project management services and financial brokers of €599,669 (2021: €591,272), accounting and financial services of **€124,352** (2021: €118,151), legal services of **€161,101** (2021: €240,452) and auditor remuneration as disclosed in note 10.

Recharge by subsidiaries
The Company and its subsidiaries have entered into contractual agreements for the provision of services by the subsidiaries to the Company. The value of the services provided for the year ended 31 December 2022 was **€2,637,524** (2021: €2,460,311).

NOTE 8

EXPENSES

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Loss before income tax includes the following specific expenses:				
Depreciation				
Computer equipment	9,488	4,594	8,574	4,594
Tools and equipment	5,964	6,631	5,964	6,631
Furniture	4,056	708	4,056	708
Satellite equipment	748,730	748,730	748,730	748,730
Buildings - right-of-use assets	56,675	8,204	49,225	8,204
Motor vehicles - right-of-use assets	7,986	-	-	-
	832,899	768,867	816,549	768,867

NOTE 9 FINANCE COSTS AND FINANCE INCOME

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Finance Costs				
Interest and finance charges	31,981	82,613	31,981	82,613
Interest and finance charges paid/payable on lease liabilities	32,208	4,964	25,570	4,964
Interest on amount payable to the Luxembourg Ministry of the Economy	649	732	649	732
Interest on Winance loan (fully repaid in February 2021)	-	196,023	-	196,023
Interest on Pure Asset Management Loan	336,316	-	336,316	-
Total finance costs	401,154	284,332	394,516	284,332
Finance Income				
Foreign exchange gains on borrowings	245,385	-	245,385	-

NOTE 10 REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Audit services - Ernst & Young S.A.				
Audit or review of the financial statements	96,375	58,824	96,375	58,824

During the financial period, no non-audit services were received by the Group or Company.

NOTE 11 INCOME TAX

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Numerical reconciliation of income tax expense and tax at the statutory rate				
Loss before income tax expense	(7,139,491)	(6,365,904)	(7,382,677)	(6,554,130)
Tax at the statutory tax rate of 24.94%	(1,780,589)	(1,587,656)	(1,841,240)	(1,634,600)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Current period tax losses not recognised	1,950,457	1,589,562	1,841,240	1,634,600
Income tax expense	169,868	1,906	-	-

Given the Group 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 statement. The cumulative tax losses of the Company to end of 2021 are **€17,908,024**. Tax losses can be carried forward for 17 years, and will expire as follows; 2034: €183,494; 2035: €2,908,716; 2036: €2,773,673; 2037: €5,629,366 and 2038: €6,412,776.

The tax loss for 2022 is expected to approximate the loss in the financial statements of **€7,382,677**.

NOTE 12

EARNINGS PER CDI

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Loss after income tax attributable to the owners of Kleos Space S.A.	(7,309,359)	(6,367,810)	(7,382,677)	(6,554,130)
	Number	Number	Number	Number
Weighted average number of CDIs used in calculating basic earnings per CDI	178,351,489	165,551,519	178,351,489	165,551,519
	Cents	Cents	Cents	Cents
Basic earnings per CDI	(4.098)	(3.846)	(4.139)	(3.959)
Diluted earnings per CDI	(4.098)	(3.846)	(4.139)	(3.959)

At 31 December 2022 and 31 December 2021, options issued with or without services conditions and warrants 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 13

CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Current assets				
Cash on hand	46	47	33	33
Cash at bank	1,760,006	5,785,131	1,607,230	5,648,297
	1,760,052	5,785,178	1,607,263	5,648,330

NOTE 14

TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Current assets				
Government grant (note 5)	93,005	93,005	93,005	93,005
Receivable from subsidiaries (1)	-	-	-	26,848
Trade and other receivables (2)	126,708	111,714	-	58,740
Deposits	3,812	-	-	-
Prepayments (3)	853,086	909,690	849,753	909,414
Net VAT and GST refundable	41,122	170,939	40,121	169,089
	1,117,733	1,285,348	982,879	1,257,096

(1) Receivable from subsidiaries was repayable on demand and non-interest bearing.

(2) Trade and other receivables includes **€46,878** (USD50,000) receivable from the US Government contract (note 5) and is payable by 31 January 2023.

(3) Prepayments (current) represent payments to Spaceflight in relation to the launch of the cluster four Satellites (KSF3) and also includes other prepayments for insurance, memberships and marketing services.

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	
	2022 %	2021 %	2022 €	2021 €	2022 €	2021 €
Consolidated						
Current and not overdue	-	-	93,005	93,005	-	-
Company						
Current and not overdue	-	-	93,005	93,005	-	-

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

NOTE 15 SHARES IN SUBSIDIARIES

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Non-current assets				
Shares in subsidiaries	-	-	204	204

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	Principle place of business / Country of incorporation	Ownership interest 2022 %	Ownership interest 2021 %
Kleos Space (Asia Pacific) Pty Ltd	Australia	100%	100%
Kleos Space Ltd	United Kingdom	100%	100%
Kleos Space Inc.	United States of America	100%	100%

NOTE 16 PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Non-current assets				
Computer equipment - at cost	55,746	34,202	47,146	34,202
Less: Accumulated depreciation	(18,251)	(8,780)	(17,354)	(8,780)
	37,495	25,422	29,792	25,422
Tools and equipment - at cost	67,245	67,245	67,245	67,245
Less: Accumulated depreciation	(30,260)	(24,296)	(30,260)	(24,296)
	36,985	42,949	36,985	42,949
Furniture - at cost	20,428	19,508	20,428	19,508
Less: Accumulated depreciation	(4,954)	(898)	(4,954)	(898)
	15,474	18,610	15,474	18,610
Satellite equipment - at cost	4,492,379	4,492,379	4,492,379	4,492,379
Less: Accumulated depreciation	(1,497,460)	(748,730)	(1,497,460)	(748,730)
Less: Impairment	(2,994,919)	-	(2,994,919)	-
	-	3,743,649	-	3,743,649
Satellite equipment (construction-in-progress)	7,929,702	5,543,651	7,929,702	5,543,651
Less: Impairment	(1,488,324)	-	(1,488,324)	-
	6,441,378	5,543,651	6,441,378	5,543,651
	6,531,332	9,374,281	6,523,629	9,374,281

NOTE 16
CONTINUED

Reconciliations

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

	Computer equipment €	Tools & equipment €	Furniture €	Satellite equipment €	Satellite equipment (progress) €	Total €
Consolidated						
Balance at 1 January 2021	963	49,580	160	-	5,416,284	5,466,987
Additions	29,053	-	19,158	-	4,619,746	4,667,957
Transfers in/(out)	-	-	-	4,492,379	(4,492,379)	-
Depreciation expenses	(4,954)	(6,631)	(708)	(748,730)	-	(760,663)
Balance at 31 December 2021	25,422	42,949	18,610	3,743,649	5,543,651	9,374,281
Additions	21,544	-	920	-	2,386,051	2,408,515
Impairment of assets	-	-	-	(2,994,919)	(1,488,324)	(4,483,243)
Exchange difference	17	-	-	-	-	17
Depreciation expense	(9,488)	(5,964)	(4,056)	(748,730)	-	(768,238)
Balance at 31 December 2022	37,495	36,985	15,474	-	6,441,378	6,531,332
Company						
Balance at 1 January 2021	963	49,580	160	-	5,416,284	5,466,987
Additions	29,053	-	19,158	-	4,619,746	4,667,957
Transfers in /(out)	-	-	-	4,492,379	(4,492,379)	-
Depreciation expense	(4,594)	(6,631)	(708)	(748,730)	-	(760,663)
Balance at 31 December 2021	25,422	42,949	18,610	3,743,649	5,543,651	9,374,281
Additions	12,944	-	920	-	2,386,051	2,399,915
Impairment of assets	-	-	-	(2,994,919)	(1,488,324)	(4,483,243)
Depreciation expense	(8,574)	(5,964)	(4,056)	(748,730)	-	(767,324)
Balance at 31 December 2022	29,792	36,985	15,474	-	6,441,378	6,523,629

NOTE 16
CONTINUED

The first cluster of four satellites was determined to be in the location and condition necessary for it to be capable of operating in the manner intended by management in July 2021. Consequently depreciation began on a straight-line basis from July 2021 over a three-year period.

During the first quarter of 2022, a suspected mechanical failure was detected in one of the KSM1 Cluster satellites (KSM1-b) which was under supplier review and did not impact the revenue generating ability of the cluster. During the second quarter of 2022 a suspected technical failure was identified on a second KSM1 Cluster satellite (KSM1-a). Subsequent to an extensive technical review including consultation with the supplier and review of possible performance mitigations, in August 2022 it was concluded that these two satellites could no longer perform their mission. An impairment review was performed resulting in a zero recoverable amount. Because these satellite failures reduced the cluster's/CGU's capabilities below the minimum number of satellites required to satisfy the CGU's operational requirements, all four satellites (representing the entirety of KSM1 cluster) have been impaired and are being de-orbited. The Company has therefore accounted for an impairment of **€2,994,919**. The Company does not purchase in-orbit insurance for its satellite assets.

The KSF1 cluster was launched in June 2021 and became operational in February 2023. In 2022 satellite KSF1-c developed an anomaly, and whilst there is small chance of recovering the satellite in the long-term, immediate resources are dedicated to completing the commissioning of the remaining satellites in the cluster. Therefore the Company has accounted for an impairment loss related to the book value of **€741,140**.

In January 2023 the satellite manufacturer informed the Company that KSF1 orbit raise must be initiated by May-June 2023 to preserve the satellites designed commercial life. It is unlikely that an orbit raise will be able to happen for both KSF1. Therefore the orbit raise will not be initiated for KSF1 and their useful lives will decrease to 18 months.

KSF2 was launched in April 2022. During 2022 contact was lost with KSF2-b and recovery attempts have had limited success. An orbit raise is required to preserve the cluster's commercial life. The time needed to attempt a recovery exceeds the window to execute an orbit raise, the company has decided to impair KSF2-b in full, for an amount of **€747,184**, as it will not be able to contribute to the CGU and raise the orbit of the remaining KSF2 satellites.

Management also performed a value-in-use calculation for the total property plant and equipment including satellite equipment construction in progress whereby the cash generating unit was assumed as the adjusted targeted fleet configuration (excluding KSM1) as per the Group's business plan over the assumed business plan period. Management concluded that there was no additional impairment required other than the KSM1 cluster (€2,994,919), KSF1 cluster (€741,140) and KSF2 cluster (€747,184) as outlined above.

NOTE 17 RIGHT-OF-USE ASSETS

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Non-current assets				
Buildings - right-of-use	219,476	147,675	147,675	147,675
Less: Accumulated depreciation	(64,609)	(8,204)	(57,429)	(8,204)
	154,867	139,471	90,246	139,471
Motor vehicles - right-of-use	27,707	-	-	-
Less: Accumulated depreciation	(7,696)	-	-	-
	20,011	-	-	-
	174,878	139,471	90,246	139,471

The Group leases buildings for its offices under agreements of between three to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases motor vehicles under agreements of three years.

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

	Buildings €	Motor Vehicles €	Total €
Consolidated			
Balance at 1 January 2021	-	-	-
Additions	147,675	-	147,675
Depreciation expense	(8,204)	-	(8,204)
Balance at 31 December 2021	139,471	-	139,471
Additions	71,801	27,707	99,508
Exchange differences	270	290	560
Depreciation expense	(56,675)	(7,986)	(64,661)
Balance at 31 December 2022	154,867	20,011	174,878

NOTE 17 CONTINUED

	Buildings €	Motor Vehicles €	Total €
Company			
Balance at 1 January 2021	147,675	-	147,675
Depreciation expense	(8,204)	-	(8,204)
Balance at 31 December 2021	139,471	-	139,471
Depreciation expense	(49,225)	-	(49,225)
Balance at 31 December 2022	90,246	-	90.246

For other IFRS 16 lease related disclosures refer to:

- note 9 for interest on lease liabilities;
- note 23 for lease liabilities at the end of the reporting period and short-term lease payments recognised as an expense;
- note 29 for maturity of analysis of lease liabilities; and
- consolidated statement of cash flows for repayment of lease liabilities.

NOTE 18

INTANGIBLES ASSETS

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Non-current assets				
Development - at cost	794,758	298,831	794,758	298,831

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

	Development costs €
Consolidated	
Balance at 1 January 2021	-
Additions (capitalised employee costs)	298,831
Balance at 31 December 2021	298,831
Additions (capitalised employee costs)	495,927
Balance at 31 December 2022	794,758

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

The Group capitalises development costs as an intangible asset once the intangible asset has met the criteria defined in the Group's accounting policy (see note 2).

Research and development costs that do not meet such criteria are recognised as an expense as incurred.

Impairment reviews are conducted annually by management.

NOTE 19

TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Current liabilities				
Trade payables*	406,764	484,718	263,510	466,051
Payable to related party	-	301	-	-
Payable to subsidiaries	-	-	633,174	119,573
	406,764	485,019	896,684	585,624

Refer to note 29 for further information on financial instruments.

** Trade payables represents amounts due for operating expenses.*

NOTE 20

ACCRUED EXPENSES

	Consolidated		Company	
	2022 €	**2021 €**	**2022 €**	**2021 €**
Current liabilities				
Social security payable	46,854	32,353	44,649	30,946
Withholding tax payable	45,193	18,029	16,909	13,070
Net wealth tax accrual	-	71,405	-	71,405
Other accruals*	687,804	452,261	417,757	452,261
	779,851	574,048	479,315	567,682

** Other accruals as at 31 December 2022 are composed of uninvoiced professional services, including audit and legal services of* €175,500 *(2021: €90,961), employee bonus payable of* €157,819 *(2021: €nil), government grant subcontractors of* €109,032 *(2021: €109,032), and accruals for satellite milestones of* €53,450 *(2021: €243,640).*

NOTE 21 CONTRACT LIABILITIES

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Current liabilities				
Contract liabilities	946,878	-	900,000	-

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

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Opening balance	-	-	-	-
Payments received in advance	946,878	-	900,000	-
Closing balance	946,878	-	900,000	-

Contract liabilities represents amount received in advance from contracts with customers for the provision of data.

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was **€946,878** as at 31 December 2022 (€nil as at 31 December 2021) and is expected to be recognised as revenue in future periods as follows:

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Within 6 months	900,000	-	900,000	-
6 - 12 months	46,878	-	-	-
	946,878	-	900,000	-

NOTE 22 BORROWINGS

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Current liabilities				
Payable to the Luxembourg Ministry of the Economy	36,522	72,862	36,522	72,862
Non-current liabilities				
Payable to the Luxembourg Ministry of the Economy	73,595	73,595	73,595	73,595
Pure Asset Management Loan (1)	2,370,318	-	2,370,318	-
	2,480,435	146,457	2,480,435	146,457

(1) Is net of payments for arrangement of loans and warrants and initial fair value of warrants, **€1,453,042**.

Refer to note 29 for further information on financial instruments.

Payable to the Luxembourg Ministry of the Economy
This payable represents a funding facility given by the Luxembourg Ministry of the Economy, under a Coronavirus support scheme. Interest is payable at 0.5% interest per annum. The facility is repayable in monthly instalments from January 2022 to December 2025 in accordance with a repayment plan agreed in August 2021.

Pure Asset Management Loan
This payable represents the first tranche of loan facility granted by Pure Asset Management Pty Ltd for A$6 million (€4.1 million). A second tranche for A$4 million (€2.6 million) is available to be drawn up until 30 June 2023. Interest is payable quarterly at 12% per annum and the principal is repayable in full in August 2026. The interest rate will decrease to 10% per annum if revenue for three consecutive months exceeds €1.2 million and 8.5% per annum if revenue exceeds €2 million for three consecutive months. There is no ability for the interest rate to return to a higher rate if revenue subsequently decreases. At 31 December 2022 the fair value of the first tranche was **€3,823,360**.

The facility is secured by a first ranking pledge agreement against any future monetary claims and rights of the Group, a first ranking pledge against any bank account opening in the name of the Group with Banque Internationale à Luxembourg S.A., and all of the Group's present and after-acquired property.

The Group is required to maintain a cash balance greater than €1.25 million. To be eligible to draw the second tranche EBITDA must be greater than €0.25 million for three consecutive months and was in compliance with this covenant as at 31 December 2022. From drawing the second tranche the Group must maintain a minimum cash balance of €2 million and have quarterly gross profit greater than €1.5 million to avoid a default event, and €2.5 million to avoid a review event.

As at 31 January 2023 the cash balance held by the Group was **€1,016,521** and was in breach of the financial covenants. On 31 January 2023 the Group announced a placement of 12,500,000 CDIs at A$0.20 per CDI to raise additional capital of A$2.5 million (€1.6 million) in February 2023.

NOTE 23

LEASE LIABILITIES

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Current liabilities				
Lease liabilities	73,484	43,139	54,136	43,139
Non-current liabilities				
Lease liabilities	121,682	109,499	55,363	109,499
	195,166	152,638	109,499	152,638

Lease liabilities relates to the right-of-use of the Group's office premises and motor vehicles. Refer to note 17.

Refer to note 29 for maturity analysis of lease liabilities.

The short-term lease payments recognised in the profit or loss as rent expense are as follows:

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Short-term lease payments	100,477	78,937	76,083	49,250

NOTE 24

DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Current liabilities				
Derivative financial instruments - warrants	283,890	1,415,548	283,890	1,415,548
Derivative financial instruments - options	12,083	1,899,161	12,083	1,899,161
	295,973	3,314,709	295,973	3,314,709

NOTE 24
CONTINUED

Refer to note 30 for further information on fair value measurement.

Warrants
On 20 February 2020, the Company issued 6,319,125 warrants to Winance with an exercise price of **A$0.38**, which can be exercised anytime over a three-year term. The warrants have been issued as part of the consideration for the financial accommodation received under the Winance loan which was repaid on 18 February 2021 upon the expiry of its term.

On 6 July 2020, the Company issued a further 2,285,381 warrants to Winance with an exercise price of **A$0.38** which can be exercised anytime over a three year term.

The warrants have been accounted for as derivative liabilities. The fair value of the 8,604,506 warrants issued at grant date was **€136,325**. This value was accounted for as a cost of obtaining the Winance loan and deducted from that loans' carrying value. The cost of the warrants was therefore amortised as a finance cost over the loan period using the effective interest rate method.

On 30 October 2020, 3,000,000 warrants to Winance were exercised at **A$0.38** for a total of **A$1,140,000** (€694,527).

At reporting date, the fair value of the remaining 5,604,506 warrants was **€13,929** (2021: €1,415,548).

On 10 August 2022, the Company issued 9,292,115 warrants to Pure Asset Management Pty Ltd with an exercise price of **$0.753** which can be exercised anytime over a four-year term. The warrants have been issued as part of the financial accommodation received under the Pure Asset Management Loan (note 22).

The warrants have been accounted for as derivative liabilities. The fair value of the 9,292,115 warrants issued at grant date was **€1,296,341**. This value was accounted for as a cost of obtaining the Pure Asset Management Loan and deducted from that loans' carrying value. The costs of the warrants is therefore amortised as a finance cost over the loan period using the effective interest rate method.

At reporting date, the fair value of the remaining 9,292,115 warrants was **€269,961** (2021: €NA).

Options
On 17 July 2020, the Company issued 2,000,000 options with an exercise price of **A$0.50**, which can be exercised at any time over a three year term. The options have been issued as part of the consideration for a subscription for 10,000,001 CDIs.

On 15 September 2021, the Company issued 8,901,175 options with an exercise price of **A$1.20**, which can be exercised at any time over a three-year term. The options have been issued as part of the consideration for a subscription for 14,835,292 CDIs.

The options have been accounted for as derivative liabilities. The fair value at grant date of the 2,000,000 and 8,901,175 options issued was **€146,950** and **€1,759,200** respectively. This value was accounted for as a cost of obtaining the equity investment and deducted from share capital.

At reporting date, the fair value of the outstanding 10,901,175 options was **€12,083** (2021: 10,901,175 options at €1,899,161).

The income of **€4,315,076** represents the change in valuation of the warrants and options in the year, or from date of issuance if issued during the year. In 2022 the valuation of 2020 warrants has decreased by **€1,401,619**, and the valuation of the 2022 warrants has decreased by **€1,026,380** since their issuance in August 2022. The value of 2020 options decreased by **€446,200** and the valuation of 2021 options decreased by **€1,440,878**.

NOTE 25 PROVISIONS

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Current liabilities				
Onerous contracts	34,021	-	-	-

Onerous contracts

The provision represents the present value of unfavourable contract with the US Government whereby the fixed price is greater than the current market rate at the end of the reporting period. The contract is scheduled to conclude on 31 March 2023. All expected inflows and outflows of economic benefits are expected to be concluded within 30 days of the scheduled contract end date.

NOTE 26 CONTRIBUTED EQUITY

	Consolidated			
	2022 CDIs	2021 CDIs	2022 €	2021 €
CHESS Depository Interests - fully paid	178,525,876	177,603,393	28,486,307	28,456,260

	Company			
	2022 CDIs	2021 CDIs	2022 €	2021 €
CHESS Depository Interests - fully paid	178,525,876	177,603,393	28,486,307	28,456,260

Movements in CDI (Consolidated and Company)

Details	Date	CDIs	Issue Price	€
Balance	1/1/2021	159,573,436		21,867,982
Issue of CDIs - exercise of options at A$0.30	28/1/2021	30,000	€0.1908	5,725
Issue of CDIs - exercise of options at A$0.30	16/2/2021	50,000	€0.1917	9,586
Issue of CDIs - exercise of options at A$0.30	18/2/2021	550,000	€0.1928	106,039
Issue of CDIs - exercise of options at A$0.30	29/6/2021	500,000	€0.1900	94,998
Issue of CDIs - exercise of options at A$0.30	8/7/2021	25,000	€0.1904	4,760
Issue of CDIs - exercise of options at A$0.30	2/8/2021	560,000	€0.1880	105,288
Issue of CDIs - exercise of options at A$0.30	16/8/2021	100,000	€0.1868	18,685
Issue of CDIs - exercise of options at A$0.30	18/8/2021	760,000	€0.1874	142,445
Issue of CDIs - exercise of options at A$0.30	15/9/2021	250,000	€0.1856	46,389
Issue of CDIs at A$0.7771	15/9/2021	369,665	€0.4970	183,750
Issue of CDIs at A$0.85		14,835,292	€0.5290	7,850,750
Unissued CDIs for equity-settled transactions				337,600
Deduction from proceeds				(1,759,200)
Transaction costs, net of tax				(558,537)
Balance	31/12/2021	177,603,393		28,456,260
Issue of CDIs	11/3/2022	789,983	€0.0010	789
Issue of CDIs - exercise of options at A$0.40	11/3/2022	100,000	€0.2513	25,125
Issue of CDIs - exercise of options at A$0.20	11/3/2022	32,500	€0.1272	4,133
Balance	31/12/2022	178,525,876		28,486,307

NOTE 26
CONTINUED

CHESS Depository Interests ('CDI') entitles the holder to participate in dividends and any proceeds on a winding up of the Company in proportions that consider both the number of CDIs held and the extent to which those CDIs are paid up.

All CDIs carry one vote per CDI.

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

In 2022, the Company raised in total **€30,047** (2021: €8,568,415) less capital raising costs of €nil (2021: €558,537). Capital raising costs includes the fair value of nil (2021: 72,941) options (note 36) granted to a third party for services rendered as part of the fund raising activities.

As part of the issuance of 14,835,292 CDIs on 15 September 2021 disclosed above, the Company also issued 8,901,175 options to participating CDI holders, for which the fair value at grant date (€1,759,200) has been deducted from the proceeds. These options are recorded as financial liabilities with change in fair value through profit and loss as disclosed under note 24.

In 2021, the Company entered into transactions for services with a value of **€337,600** that were settled by the issuance of CDIs in 2022.

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

Capital risk management
The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for CDI holders 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 Group may adjust the amount of dividends paid to CDI holders, return capital to CDI holders, issue new CDIs or sell assets to reduce debt.

The Group regularly requires additional debt or equity funding in order to fund operating and capital expenditures, particularly until it generates revenue.

The capital risk management policy remains unchanged from the 2021 Annual Report.

NOTE 27

RESERVES

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Foreign currency reserve	12,148	(6,596)	-	-
Share-based payments reserve	635,446	397,602	635,446	397,602
	647,594	391,006	635,446	397,602

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 (including share raising activities).

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

	Foreign currency €	Share-based €	Total €
Consolidated			
Balance at 1 January 2021	124	265,278	265,402
Foreign currency translation	(6,720)	-	(6,720)
Share-based payments	-	132,324	132,324
Balance at 31 December 2021	(6,596)	397,602	391,006
Foreign currency translation	18,744	-	18,744
Share-based payments	-	237,844	237,844
Balance at 31 December 2022	12,148	635,446	647,594
Company			
Balance at 1 January 2021	-	265,278	265,278
Share-based payments	-	132,324	132,324
Balance at 31 December 2021	-	397,602	397,602
Share-based payments	-	237,844	237,844
Balance at 31 December 2022	-	635,446	635,446

NOTE 28

DIVIDENDS

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

NOTE 29

FINANCIAL INSTRUMENTS

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

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

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

	Assets		Liabilities	
Consolidated	2022 €	2021 €	2022 €	2021 €
US dollars	204,224	116,452	438,408	23,258
Pound Sterling	51,096	5,652	143,514	526
Australian dollars	28,990	5,378,462	3,825,565	6,455
	284,310	5,500,566	4,407,487	30,239
Company				
Australian dollars	-	5,361,868	3,823,360	-

NOTE 29 CONTINUED

At 31 December 2022, the Group had net financial liabilities denominated in foreign currency of **€4,123,177** (2021: net financial assets €5,470,327).

Based on this exposure, had the Euro strengthened by 10%/weakened by 10% (2021: strengthened by 10%/ weakened by 10%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the period would have been **€412,318 higher/€412,318 lower** (2021: €547,033 lower/€547,033 higher) and equity would have been **€412,318 higher/€412,318 lower** (2021: €547,033 lower/€547,033 higher).

During 2022, the Pure Asset Management Loan was received in Australian dollars and during 2021 the Winance loan was received in Euro and is repaid in Euro.

At 31 December 2022, the Company had net financial liabilities denominated in foreign currency of **€3,823,360** (2021: net financial assets €5,361,868).

Based on this exposure, had the Euro strengthened by 10%/weakened by 10% (2021: strengthened by 10%/ weakened by 10%) against these foreign currencies with all other variables held constant, the Company's loss before tax for the period would have been **€382,336 higher/€382,336 lower** (2021: €536,187 lower/€536,187 higher) and equity would have been **€382,336 higher/€382,336 lower** (2021: €536,187 lower/€536,187 higher).

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 Group and the Company is not exposed to any significant price risk.

Interest rate risk
At the reporting date, the Group had no variable rate borrowings.

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

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

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

The Group and the Company's cash at bank is deposited with creditworthy banks with no recent history of default.

NOTE 29
CONTINUED

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 Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.
Under the terms of the PURE Asset Management Loan, the Group is required to maintain a cash balance greater than €1.25 million.

The Group and the Company manages liquidity risk by maintaining adequate cash reserves which it does 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 Group'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.

NOTE 29
CONTINUED

Consolidated - 2022	Weighted Avg. interest %	1 year or less €	Between 1-2 years €	Between 2-5 years €	Over 5 years €	Remaining contractual maturities €
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	406,764	-	-	-	406,764
Other current liabilities	-	4,958	-	-	-	4,958
Interest-bearing - fixed rate						
Lease liabilities	16.29%	98,102	88,314	50,198	-	236,614
Payable to the Luxembourg Ministry of the Economy	0.50%	36,989	36,989	36,989	-	110,967
Payable to Pure Asset Management PTY Ltd	12.00%	488,249	488,249	4,862,150	-	5,838,648
Total non-derivatives		1,035,062	613,552	4,949,337	-	6,597,951
Derivatives						
Warrants*	-	283,890	-	-	-	283,890
Options	-	12,083	-	-	-	12,083
Total derivatives		295,973	-	-	-	295,973

Consolidated - 2021	Weighted Avg. interest %	1 year or less €	Between 1-2 years €	Between 2-5 years €	Over 5 years €	Remaining contractual maturities €
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	484,718	-	-	-	484,718
Other current liabilities	-	6,963	-	-	-	6,963
Interest-bearing - fixed rate						
Lease liabilities	13.10%	68,709	70,083	59,571	-	198,363
Payable to the Luxembourg Ministry of the Economy	0.50%	36,989	36,989	73,978	-	147,956
Total non-derivatives		597,379	107,072	133,549	-	838,000
Derivatives						
Warrants*	-	1,415,548	-	-	-	1,415,548
Options	-	1,899,161	-	-	-	1,899,161
Total derivatives		3,314,709	-	-	-	3,314,709

NOTE 29
CONTINUED

Company - 2022	Weighted Avg. interest %	1 year or less €	Between 1-2 years €	Between 2-5 years €	Over 5 years €	Remaining contractual maturities €
Non-derivatives						
Non-interest bearing						
Trade payables	-	263,510	-	-	-	263,510
Other current liabilities	-	2,904	-	-	-	2,904
Interest-bearing - fixed rate						
Lease liabilities	20.00%	70,083	59,571	-	-	129,654
Payable to the Luxembourg Ministry of the Economy	0.50%	36,989	36,989	36,989	-	110,967
Payable to Pure Asset Management PTY Ltd	12.00%	488,249	488,249	4,862,150	-	5,838,648
Total non-derivatives		861,735	584,809	4,899,139	-	6,345,683
Derivatives						
Warrants*	-	283,890	-	-	-	283,890
Options	-	12,083	-	-	-	12,083
Total derivatives		295,973	-	-	-	295,973

Company - 2021	Weighted Avg. interest %	1 year or less €	Between 1-2 years €	Between 2-5 years €	Over 5 years €	Remaining contractual maturities €
Non-derivatives						
Non-interest bearing						
Trade payables	-	466,051	-	-	-	466,051
Other current liabilities	-	2,148	-	-	-	2,148
Interest-bearing - fixed rate						
Lease liabilities	13.10%	68,709	70,083	59,571	-	198,363
Payable to the Luxembourg Ministry of the Economy	0.50%	36,989	36,989	73,978	-	147,956
Total non-derivatives		573,897	107,072	133,549	-	814,518
Derivatives						
Warrants*	-	1,415,548	-	-	-	1,415,548
Options	-	1,899,161	-	-	-	1,899,161
Total derivatives		3,314,709	-	-	-	3,314,709

NOTE 29
CONTINUED

** The figure provided for warrants represents the maximum possible cash payment that could be made to warrant holders on exercise of warrants should their total CDI holding exceed a threshold on exercise. The thresholds are as follows: (i) 20%; (ii) 33%; (iii) 50%; and (iv) any other threshold provided by applicable law. The consent of the Luxembourg Government is required before any person may directly or indirectly hold Shares or CDIs in such a way that the proportion of voting rights held by such person would meet or exceed these thresholds. If, upon an exercise of warrants, the proportion of voting rights directly or indirectly linked to the CDI's would meet or exceed a threshold, the Company must notify the warrant holder of this fact, and the warrant holder must obtain prior consent of the Luxembourg Licensing Authority. Alternatively, the warrant holder may elect at any time to exercise the warrants by redeeming them for a cash payment by given a Cash Redemption Notice to the Company. The Company must pay to the warrant holder a cash payment determined in accordance with the following formula: Number of warrants X (Current share price - Exercise price). Such a cash redemption amount is equivalent to the fair value disclosed in the above tables. Should a warrant holders CDI holding not exceed a threshold amount on exercise, such warrant holders will pay to the Company the exercise price in exchange for CDIs in the Company, and no cash will be exchanged.*

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

NOTE 30

FAIR VALUE MEASUREMENT

Fair value hierarchy
The following tables detail the Group's and Company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

NOTE 30
CONTINUED

Consolidated - 2022	Level 1 €	Level 2 €	Level 3 €	Total €
Liabilities				
Derivative financial instruments - warrants	-	-	283,890	283,890
Derivative financial instruments - options	-	-	12,083	12,083
Total liabilities	-	-	295,973	295,973

Consolidated - 2021	Level 1 €	Level 2 €	Level 3 €	Total €
Liabilities				
Derivative financial instruments - warrants	-	-	1,415,548	1,415,548
Derivative financial instruments - options	-	-	1,899,161	1,899,161
Total liabilities	-	-	3,314,709	3,314,709

Refer to note 24 for further information on warrants and options.

The fair value hierarchy of the Group and the Company is the same.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between levels during the financial year.

The movement in the fair value, which is primarily due to decreased share price and volatility, is recognised in the consolidated profit or loss for the year ended 31 December 2022.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value due to the short-term nature of financial assets and financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Derivative financial instruments in the form of warrants and options have been valued using Black Scholes pricing model.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in fair value measurements during the year.

NOTE 30
CONTINUED

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Range (weighted average)	Sensitivity
Warrants and options	Volatility	(10%) - 10%	An increase of 10% would result in the liability increasing to **€375,663** and a decrease of 10% would result in the liability decreasing to **€222,602**, assuming all other factors remain constant.
	Risk free rate	2.51% - 4.51%	A 1% increase in the risk free rate would result in an increase in the liability by **€305,190** and a decrease of 1% would result in a decrease in the liability by **€286,918**, assuming all other factors remain constant.
	Underlying price	€0.19 - €0.21	A 5% increase in the recent transaction price would result in an increase in the liability by **€328,260** and a 5% decrease in the recent transaction price would result in a decrease in liability by **€265,590**.

NOTE 31

CONTINGENT LIABILITIES

Neither the Group nor the Company had any contingent liabilities as at 31 December 2022 and 31 December 2021.

NOTE 32

COMMITMENTS

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
*Capital commitments**				
Committed at the reporting date but not recognised as liabilities, payable:				
Property, plant and equipment (satellite and launch)	1,458,804	3,257,007	1,458,804	3,257,007
Contracts for operating satellites equipment	455,504	523,261	455,504	523,261

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

NOTE 33

RELATED PARTY TRANSACTIONS

Related party
Magna Parva Limited is a company incorporated in the United Kingdom which owns 14.00% of the CDIs of the Company (2021: 14.07%).

Subsidiaries
Interests in subsidiaries are set out in note 15.

Key management personnel
Disclosures relating to key management personnel are set out in note 34.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Sale of goods and services:				
Sales of services to subsidiaries	-	-	-	-
Payment for goods and services:				
Payments to subsidiaries	-	-	3,133,485	2,431,856

NOTE 33 CONTINUED

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

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Current receivables:				
Receivable from subsidiaries	-	-	-	26,848
Current payables:				
Payable to related party	-	301	-	-
Payable to subsidiaries	-	-	633,174	119,573

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

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

NOTE 34

KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	Consolidated 2022 €	Consolidated 2021 €	Company 2022 €	Company 2021 €
Short-term employee benefits	1,812,907	1,256,854	187,835	275,349
Share-based payments	45,030	51,843	17,461	51,843
	1,857,937	1,308,697	205,296	327,192
Other payments:				
Consultancy and professional fees	321,808	90,000	195,569	90,000

NOTE 34
CONTINUED

During the year no performance rights (2021: nil) were exercised and issued as CDIs. No performance rights (2021: nil) were issued during the year. A total of nil performance rights (2021: nil) expired during the year when the vesting conditions had not been met by the respective expiry dates. At 31 December 2022 no performance rights (2021: nil) remained outstanding.

During the year 600,000 options were issued to key management personnel (2021: 500,000). No options were exercised during the year (2021: nil). At 31 December 2022 1,100,000 options remain outstanding (2021: 500,000).

NOTE 35

CASH FLOW INFORMATION

Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Loss after income tax expense for the year	(7,309,359)	(6,367,810)	(7,382,677)	(6,554,130)
Adjustments for:				
Net fair value loss on financial assets	(4,315,076)	721,536	(4,315,076)	721,536
Share-based payments	237,844	132,324	237,844	132,324
Foreign exchange differences	24,967	(7,405)	-	-
Depreciation	832,899	768,867	816,549	768,867
Finance cost - non-cash	194,640	182,032	194,239	182,032
Impairment of property, plant and equipment	4,483,243	-	4,483,243	-
Change in operating assets and liabilities:				
Decrease/(increase) in trade receivables and other current assets	(14,994)	(19,580)	58,740	(19,580)
Decrease/(increase) in prepayments	56,604	(452,748)	59,661	(452,472)
Decrease/(increase) in other operating assets	129,817	(164,060)	128,968	(112,000)
Increase/(decrease) in trade and other payables	(258,778)	55,164	3,004,556	2,491,518
Increase in contract liabilities	946,878	-	900,000	-
Increase in provision for income tax	54,156	-	-	-
Increase in other provisions	34,021	-	-	-
Increase/(decrease) in other operating liabilities	203,798	6,440	(87,611)	1,624
Net cash used in operating activities	(4,699,340)	(5,145,240)	(1,901,564)	(2,840,281)

NOTE 35
CONTINUED

Non-cash investing and financing activities

	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
CDIs issued on acquisition of plant and equipment	-	183,750	-	183,750

Changes in liabilities arising from financing activities

Consolidated	Winance loan €	Luxembourg Ministry of the Economy €	Pure Asset Management Loan €	Lease liabilities €	Total €
Balance at 1 January 2021	3,319,643	146,457	-	-	3,466,100
Net cash used in financing activities	(3,319,643)	-	-	-	(3,319,643)
Acquisition of leases	-	-	-	147,674	147,674
Other changes non-cash	-	-	-	4,964	4,964
Balance at 31 December 2021	-	146,457	-	152,638	299,095
Net cash from/(used in) financing activities	-	(36,340)	4,068,745	(57,179)	3,975,226
Acquisition of leases	-	-	-	99,508	99,508
Transactions costs on borrowings	-	-	(1,453,042)	-	(1,453,042)
Other changes non-cash	-	-	(245,385)	199	(245,186)
Balance at 31 December 2022	-	110,117	2,370,318	195,166	2,675,601

The Group utilised proceeds of the Winance loan to redeem the Convertible notes and pay finance costs associated with the Convertible notes and the Winance loan.

NOTE 35
CONTINUED

Company	Winance loan €	Luxembourg Ministry of the Economy €	Pure Asset Management Loan €	Lease liabilities €	Total €
Balance at 1 January 2021	3,319,643	146,457	-	-	3,466,100
Net cash used in financing activities	(3,319,643)	-	-	-	(3,319,643)
Acquisition of leases	-	-	-	147,674	147,674
Other changes non-cash	-	-	-	4,964	4,964
Balance at 31 December 2021	-	146,457	-	152,638	299,095
Net cash from/(used in) financing activities	-	(36,340)	4,068,745	(43,139)	3,989,266
Transactions costs on borrowings	-	-	(1,453,042)	-	(1,453,042)
Other changes non-cash	-	-	(245,385)	-	(245,385)
Balance at 31 December 2022	-	110,117	2,370,318	109,499	2,589,934

NOTE 36

SHARE-BASED PAYMENTS

CDI OPTIONS

Set out below are summaries of options granted to employees and suppliers for goods and services:

2022

Grant date	Expiry date	Exercise price A$	Balance at start of year	Granted	Exercised	Expired / forfeited other	Balance at the end of year
06/09/2019	06/09/2022	0.40	950,000	-	(100,000)	(850,000)	-
19/12/2019	19/12/2022	0.40	475,000	-	-	(475,000)	-
17/07/2020	17/07/2023	0.50	5,000,000	-	-	-	5,000,000
17/07/2020	17/07/2030	0.20	383,000	-	(32,500)	-	350,500
15/09/2021	15/09/2024	1.20	8,901,175	-	-	-	8,901,175
11/10/2021	11/10/2031	0.20	875,000	-	-	(167,500)	707,500
29/06/2022	29/06/2032	0.20	-	882,500	-	(50,000)	832,500
28/10/2022	28/10/2032	0.20	-	450,000	-	-	450,000
			16,584,175	1,332,500	(132,500)	(1,542,500)	16,241,675
Weighted average exercise price (A$)			0.84	0.20	0.35	0.37	0.84

Options granted to suppliers have no vesting conditions.

2021

Grant date	Expiry date	Exercise price A$	Balance at start of year	Granted	Exercised	Expired / forfeited other	Balance at the end of year
24/08/2018	17/08/2021	0.30	2,850,000	-	(2,825,000)	(25,000)	-
06/09/2019	06/09/2022	0.40	950,000	-	-	-	950,000
19/12/2019	19/12/2022	0.40	475,000	-	-	-	475,000
17/07/2020	17/07/2023	0.50	5,000,000	-	-	-	5,000,000
17/07/2020	17/07/2030	0.20	490,000	-	-	(107,000)	383,000
15/09/2021	15/09/2024	1.20	-	8,901,175	-	-	8,901,175
11/10/2021	11/10/2031	0.20	-	925,000	-	(50,000)	875,000
			9,765,000	9,826,175	(2,825,000)	(182,000)	16,584,175
Weighted average exercise price (A$)			0.41	1.11	0.30	0.21	0.84

NOTE 36
CONTINUED

The Company granted 540,000 options on 17 July 2020, 925,000 options on 11 October 2021, 882,500 options on 29 June 2022 and 450,000 options on 28 October 2022 to employees. Except for the options granted to employees, all other options were granted to suppliers.

The terms of the options granted to employees during the year are as follows:

i 65% to vest one year from the grant date; and

ii 35% to vest two years from the grant date.

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2022 Number	2021 Number
06/09/2019	06/09/2022	-	950,000
19/12/2019	19/12/2022	-	475,000
17/07/2020	17/07/2023	5,000,000	5,000,000
17/07/2020	17/07/2030	350,500	253,500
15/09/2021	15/09/2024	8,901,175	8,901,175
11/10/2021	11/10/2031	488,750	32,500
29/06/2022	29/06/2032	82,500	-
		14,822,925	15,612,175

The weighted average remaining contractual life of options outstanding at 31 December 2022 was 2.64 years (2021: 2.70 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 indices, fair value is measured using the Black Scholes pricing model to estimate the forecast 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 annualised volatility has been set by reference to the implied volatility of options available on Kleos Space S.A. CDIs in the open market, as well as historical patterns of volatility.

NOTE 36
CONTINUED

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	CDI price at grant date A$	Exercise price A$	Expected volatility %	Dividend yield %	Risk-free interest %	Fair value at grant date A$
29/06/2022	29/06/2032	0.40	0.20	75.72%	-	3.38%	0.28
28/10/2022	28/10/2032	0.26	0.20	75.68%	-	3.32%	0.15

SHARE-BASED PAYMENTS	Consolidated		Company	
	2022 €	2021 €	2022 €	2021 €
Options - fair value on grant date	237,844	132,324	237,844	132,324

NOTE 37

EVENTS AFTER THE REPORTING PERIOD

On 1 January 2023 Alan Khalili was appointed as CEO and has been granted three million options, with a strike price of **A$0.20** per option, under a long-term incentive plan.

As announced on 31 January 2023, the Company issued a placement of **12,500,000 CDIs** at **A$0.20** per CDI to raise additional capital of **A$2.5 million** (€1.6 million) in February 2023.

KSF3 was launched in January 2023. KSF1 became operational in February 2023.

As at 31 January 2023 the cash balance held by the Group was **€1,016,521**. Under the financial covenants of the facility agreement entered into with Pure Asset Management in August 2022, the Group is to maintain a cash balance greater than **€1.25 million** prior to the second utilisation date (30 June 2023). After the afore-mentioned capital raise, the Group is no longer in breach of the financial covenants.

The Group's spectrum licence expired in December 2022, with a two-month extension granted until February 2023 by the Luxembourg Space Agency. The Group was granted a second extension through 17 March 2023. The Group is confident that the issue will be resolved timely. Further details are contained within note 2 under going concern.

In January 2023 the satellite manufacturer informed the Company that KSF1 orbit raise must be initiated by May-June 2023 to preserve the satellites designed commercial life. It is unlikely that an orbit raise will be able to happen for KSF1. Therefore the orbit raise will not be initiated for KSF1 and their useful lives will decrease to 18 months.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Independent Auditor's Report

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Independent auditor's report

To the Shareholders of
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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 statement of financial position as at 31 December 2022, and the consolidated and company statement of profit or loss and other comprehensive income, the consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and the notes to the consolidated and company 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 2022, and of its consolidated and company financial performance and its consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "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 the "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 Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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.

Material uncertainty related to going concern

We draw your attention to note 2 of the financial statements, which refers to the budget and forecast for 2023 and 2024 of the Company which is based on significant assumptions regarding the ability of the Company to generate revenue from customers and to raise additional funding. The uncertainty around these two key assumptions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of satellites

The Company has satellite equipment and assets under construction for a net book value of 6.4 MEUR as at 31 December 2022. An impairment expense of 4.5 MEUR was recognised for the year ended 31 December 2022 in relation to several satellites, due to various technical anomalies as outlined in note 17 of the financial statements.

For impairment testing, management considers that there are two cash generating units; KSM 1 and a second cash generating unit consisting of the clusters KSF 1, 2 and 3. Management therefore, considers both the health of each individual satellite as well as the cash generating ability of the relevant cash generating unit as a whole.

Given the various technical anomalies encountered, there is a risk that the satellite equipment and assets under construction may not be able to meet their capability requirements as intended by the management. The valuation of satellites might be impacted by events and unfavourable market developments that may decrease future revenues.

Due to the size of the balance and the risk of impairment of satellites in accordance with IAS 36 "Impairment of Assets", we considered this area to be a key audit matter.

How our audit addressed the Key audit matter

Our procedures included amongst others:

- We obtained the impairment analysis prepared by management and compared the evolution of satellite health to prior period;
- We inquired of management, including the technical engineering team, regarding any satellite health issues and evaluated their impact on the satellites' ability to generate future cash inflows. We examined relevant correspondence with the satellite manufacturer;

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- We obtained the client's impairment model, tested assumptions, evaluated the forecasted revenue and costs assumptions considering our expectations in terms of significant developments during the forecast period;
- We evaluated management's determination of cash generating units considering the requirements of IAS 36 "Impairment of Assets";
- We performed sensitivity analysis on the impairment model to changes in key assumptions;
- We assessed the adequacy of the disclosure in Note 17 to the consolidated and company financial statements.

Accounting for share based payment schemes

The Company grants equity instruments to employees and suppliers for services rendered as outlined in note 36 of the financial statements. Accounting for share based compensation schemes and share-based payments was a matter of significance to our audit due to the complexity of the accounting treatment of share-based transactions and the complexity surrounding the valuations, especially the assumptions and estimates made.

How our audit addressed the Key audit matter

Our procedures included amongst others:

- We obtained minutes of the Board of Directors' Meetings and the plan rules to identify new plans granted during the period. Furthermore, we reviewed the contracts including share-based payments with suppliers;
- We assessed the accounting treatment made by management for each of the share-based payment schemes with employees and with suppliers;
- We tested the mathematical accuracy of the option valuation models. We used our internal valuation experts to assess the valuation models and key inputs;
- We assessed the adequacy of the disclosure in Note 36 to the consolidated and company financial statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included 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.

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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 of 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 IFRS 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 and the Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Company'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 "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 of 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 of 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 and the Company'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 and the Company'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 "réviseur 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 report of "réviseur d'entreprises agréé". However, future events or conditions may cause the Group or the Company 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 information 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 communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Olivier Lemaire

Luxembourg, 24 February 2023

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