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Appendix 4D

Half-Year Report

SPACETALK LTD

ABN 93 091 351 530

31 December 2022
(Previous corresponding period: 31 December 2021)

Appendix 4D

SPACETALK LTD

ABN 93 091 351 530

Half-Year Report
31 December 2022
(Previous corresponding period: 31 December 2021)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Percentage change from corresponding period	Amount change from corresponding period	6 months ended 31/12/2022	6 months ended 31/12/2021
Financial Results	**%**	**$**	**$**	**$**
Revenue from ordinary activities	(26)%	(3,186,466)	9,290,300	12,476,766
Loss from ordinary activities after tax attributable to members	409%	(7,420,349)	(9,236,591)	(1,816,242)
Net loss for the period attributable to members	412%	(7,519,571)	(9,343,591)	(1,824,020)

Dividends declared	**Amount per security**	**Franked amount per security**
Interim Dividend	Nil	Nil
Final Dividend	Nil	Nil
No dividends have been declared		
Record date for determining entitlements to the interim dividends	N/A	N/A
Record date for determining entitlements to the final dividends	N/A	N/A

Net tangible asset backing	**31 December 2022 (cents per share)**	**31 December 2021 (cents per share)**
Net tangible asset backing per ordinary security	0.27	3.05

Other explanatory notes

N/A

Control gained or lost over entities during the period

Name of entity	N/A
Date of gaining or losing control	N/A
Dividends or distributions paid to shareholders	N/A
Dividends or distributions reinvestment plan details	N/A
Joint venture and associate details	N/A

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SPACETALK LTD.

Half-Year Report

31 December 2022

(Previous corresponding period: 31 December 2021)

SPACETALK



CONNECTED FAMILIES • CONFIDENT KIDS • SAFE SENIORS

Half-Year Report

Ended 31 December 2022

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Corporate Directory

Registered Office	Level 2, 104 Frome Street Adelaide 5000
Principal Office	Level 2, 104 Frome Street Adelaide 5000 **Facsimile:** (08) 8431 2400
Auditor	William Buck (SA)
Share Registry	Computershare Investor Services Pty Ltd Level 5 115 Grenfell Street Adelaide SA 5000 **Telephone:** 1300 556 161 **Overseas Callers:** +61 3 9415 4000 **Facsimile:** 1300 534 987
Stock Exchange	The securities of Spacetalk Ltd. are listed on the Australian Securities Exchange.
ASX Code	**SPA** ordinary fully paid shares

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Directors' Report

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The Directors of Spacetalk Ltd ("Spacetalk" or "Company") present their report together with the financial statements of the consolidated entity, being Spacetalk and its controlled entities ('the Group') for the half year ended 31 December 2022.

DIRECTOR'S DETAILS

The following persons were directors of Spacetalk during and since the end of 1HFY23:

- Georg Chmiel - Independent Non-Executive Chair
- Simon Crowther - Managing Director / CEO (from 06 February 2023)
- Dr Brandon Gien - Independent Non-Executive Director
- Saurabh Jain - Independent Non-Executive Director (from 1 March 2022 to 05 October 2022), Acting Managing Director and CEO (from 06 October 2022 to 05 February 2023), Non-Executive Director (from 06 February 2023)
- Martin Pretty - Independent Non-Executive Director
- Mike Rann - Independent Non-Executive Director
- Mark Fortunatow - Managing Director / CEO (until 7 October 2022)

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

A summary of the Group's financial results from operations for 1HFY23 and prior corresponding period is set out below:

The Group incurred a loss after tax for the six month period to 31 December 2022 of $9,236,591 (31 Dec 2021: $1,816,242) and net cash outflows from operating activities of $958,617 (31 Dec 2021: $3,636,025).

- Revenue of $9,290,300 a 26% decrease on the prior corresponding period (PCP) revenue of $12,476,766
- Gross profit of $4,479,420 a 36% decrease on PCP gross profit of $7,012,463
- Reported loss after income tax of $9,236,591 a 409% increase on PCP of $1,816,242
- Underlying loss after income tax of $6,227,173 a 164% increase on PCP of $2,360,473

	6 months ended 31/12/2022	6 months ended 31/12/2021
	$	$
		Restated
Net Loss after tax attributable to owners of the company - reported	**(9,236,591)**	(1,816,242)
Add back:		
Write off old assets	**185,224**	
Reverse incentive rights	**(422,970)**	
Impairment of intangible assets	**2,245,682**	
Costs relating to debt restructure	**3,365,775**	
Gain of fair value of derivatives	**(2,364,293)**	(544,231)
Net Loss after tax attributable to owners of the company - underlying	**(6,227,173)**	(2,360,473)

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Correction of material adjustments and restatement of comparatives - in preparation of this 4D Half Year Report at 31 December 2022 the Directors resolved that there were some material errors in the historic accounting treatment of various items and have decided that these corrections should be made to restate prior year comparatives and ensure they are also reflected appropriately in the financial statements prepared as at 31 December 2022.

Revenue decrease - the half year saw a 26% decrease on PCP. This was predominantly due to the discontinuation of a lower profitable product line the Spacetalk Kids budget watch. This is due to be replaced with a new profitable version towards the end of FY2023.

Annual Recurring Revenue ("ARR") - Spacetalk has built a strong foundation for future sustainable growth with a current ARR of $7.4m as at 31 December 2022, an increase of 29% to PCP of $5.8m.

JumpySIM - JumpySIM continues to see strong growth with a growing positive cash impact over the half year. JumpySIM is expected to increase the annual revenue per user ("ARPU"), and provide an opportunity to upsell to existing customers and potential to roll out in other regions. After introducing JumpySIM (SIM card and mobile plans) in the USA, the Group launched JumpySIM in Australia (September 2022). From introduction, this product and mobile plans have been growing strongly.

Cost Reductions - This half year also saw the initiation of the first phase of cost reductions which is anticipated to save the Group an annualised $2.0m commencing in calendar year 2023.

Business Reset - During the half year the sustainability and financial strength of the Group were substantially improved through a combination of actions including cost reductions, debt refinancing, equity funding and working capital improvements.

Distribution Channels - The Group continues to work with distribution channels that we have established in Australia, Europe and North America. In addition, the Group is looking to further enhance its distribution channels in these respective regions, Australia, Europe and North America.

Supply Chain and Inventory - Spacetalk did not experience any supply chain disruptions during the half. The Group did exit out of a lower profitable product line the Spacetalk Kids budget watch. The budget watch will be replaced with a more profitable alternative anticipated for release late in the FY23 fiscal year.

Improved Working Capital Management - Focus on improved inventory management with smaller orders of watches more often when needed, direct consumer e-commerce sites, and the introduction of JumpySIM that allows for the improved cash flow as users often pay annually in advance.

Phased Out Kids Watch - During the half, the Group phased out its Spacetalk Kids watch and plans to close the temporary revenue gap with higher margin revenues such as JumpySIM. There was progress in enhancing future growth capabilities and stability of Spacetalk.

Budget Watch - The Group has announced that it is working on a budget watch for potential release late in the second half of the FY23 financial year.

Summary of financial position

As at 31 December 2022 Spacetalk held cash of $4.2m ($5.6m at 30 June 2022) and an increase of cash held of $2.7m as at 30 September 2022 (as announced in the 1Q23 Business Update).

During the half, the Group successfully raised $1.15m of new equity (before costs). As part of the new equity issue additional capital of $1.23m (before costs) was raised in February 2023 including the equity from shortfall placement to Directors of $230k.

In addition, during the half the group renegotiated its $5m debt facility with Pure Asset Management Pty Ltd resulting in lower interest rate, extended term for the second tranche of the loan and amended covenants.

	31/12/2022	30/06/2022
	$	$
		Restated
Balance Sheet - Summary of financial position		
Cash and cash equivalents	**4,202,118**	5,577,088
Net Current Assets	**6,446,148**	8,128,674
Net Assets	**1,925,329**	10,356,936
Summary of share capital		
Issued capital	**29,383,953**	28,064,477
No. of issued shares	**256,199,339**	216,355,749

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SIGNIFICANT CHANGES IN STATE OF AFFAIRS & BUSINESS HIGHLIGHTS

During the half:

Chief Executive Officer change - As part of the transition, the former CEO/Managing Director Mr Fortunatow left the business on 7th October 2022. Mr Saurabh Jain took over the role of Acting CEO / Managing Director of Spacetalk in October of 2022 until the board appointment of Mr Simon Crowther as Chief Executive Officer (CEO) and Managing Director, effective 6 February 2023. As former CEO of Nearmap and Managing Director of Yamaha Motor Ventures, Mr Crowther brings a wealth of valuable knowledge and a growth mindset to Spacetalk.

Pure Loan Agreement Renegotiated - The Group renegotiated its debt facility with Pure Asset Management Pty Ltd, resulting in a lower interest rate and the repayment date extended for the second tranche of the loan.

Capital Raise - On the 23rd of November the Group announced a non-renounceable entitlement offer. This offer was closed on the 29th of December 2022 raising $1.15m (before costs). An additional $1.23m (before costs) was raised during the shortfall program in February 2023.

SUBSEQUENT EVENTS

Acting CEO/Managing Director - Mr Saurabh Jain resigned as Acting CEO / Managing Director of Spacetalk on 5 February 2023 and returned to the Board of Spacetalk as a Non-Executive Director.

New CEO/Managing Director - Mr Simon Crowther was appointed Chief Executive Officer (CEO) and Managing Director effective 6 February 2023.

Spacetalk Entitlement Offer - The Company Entitlement Offer announced in November 2022 finalised a shortfall share issue in February 2023 resulting in additional $1.23m capital raised (before costs), representing 41,023,334 ordinary shares and 20,511,667 options. Included in the $1.23m is $230k received from the Directors of Spacetalk, representing 7,690,000 ordinary shares and 3,845,000 options. In addition, the shareholders have also approved the issuance of 826,024 performance rights to the directors of Spacetalk in February 2023.

Pure Asset Management Pty Ltd exercise warrant - On 6 February 2023 Pure Asset Management Pty Ltd exercised their existing warrant over 11 million shares. Consideration of $396,000 was received by the Company in February as a result of this exercise.

OUTLOOK

With Mr Simon Crowther joining as CEO, Spacetalk is reviewing it's strategy. While still under development, it is expected we will focus increasingly on:

Brand - Building upon Spacetalk's strong brand equity, we will align our ecosystem of products around this central brand.

Digital Channels - Leveraging our existing digital footprint, and developing new forms of digital engagement to increase reoccurring revenue from these channels.

Building ARR - We will continue our focus on building our subscription business and forming deeper relationships with our customers.

Schools Business - We will renew our focus on engaging state and private school networks with our highly profitable schools SaaS product suite.

Cost Management - We will increase our focus on cost management within the business as we continue to streamline our operations.

Growth Focus - We will renew our focus on executing a positive growth model within the ANZ market.

Ongoing cash focus - We will continue our ongoing focus on cash management.

DIVIDENDS

No Dividends were declared during the half year ended 31 December 2022 (2021 half-year: $nil).

No Dividends relating to the year ended 30 June 2022 were paid during the half year ended 31 December 2022 (2021 half year: $nil).

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration for the half-year report ended 31 December 2022 has been received and included on page 7.

Signed in accordance with a resolution of Directors made pursuant to the s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors.



GEORG CHMIEL
CHAIR

28 February 2023.

Auditor's Independence Declaration

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William Buck
ACCOUNTANTS & ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SPACETALK LTD

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2022 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

— no contraventions of any applicable code of professional conduct in relation to the review.

William Buck

William Buck (SA)
ABN 38 280 203 274

M. D. King
Partner

Dated at Adelaide this 28th day of February, 2023

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Independent Auditor Review Report

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William Buck
ACCOUNTANTS & ADVISORS

SPACETALK LTD

Independent auditor's review report

Report on the Review of the Half-Year Financial Report

Conclusion
We have reviewed the accompanying half-year financial report of Spacetalk Ltd (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Spacetalk Ltd is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and

b) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion
We conducted our review in accordance with ASRE *2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the consolidated entity in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material Uncertainty Related to Going Concern
We draw attention to Note 1.5 in the financial report, which indicates the company incurred a loss after tax for the six month period to 31 December 2022 of $9,236,591 and net cash outflows from operating activities of $958,617. As stated in Note 1.6 these events, along with other matters as set forth in Note 1.6, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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Independent Auditor Review Report

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William Buck
ACCOUNTANTS & ADVISORS

Emphasis of Matter – Restatement of Comparatives
We draw attention to Note 2 in the financial report which details corrections of material errors in a prior period. Our conclusion is not modified in respect of this matter.

Other Matter
The financial report of Spacetalk Ltd, for the year ended 30 June 2022, was audited by another auditor who expressed an unmodified opinion on that report on 30 September 2022.

Responsibility of Management for the Half-Year Financial Report
The directors of the consolidated entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-Year Financial Report
Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

William Buck

William Buck (SA)
ABN: 38 280 203 274

M.D. King
Partner

Dated at Adelaide this 28th day of February, 2023

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Directors Declaration

The Directors declare that:

(a) in the directors' opinion, the attached financial statements and notes comply with the *Corporations Act 2001*, *Australian Accounting Standard AASB 134 'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

(b) in the directors' opinion, the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and.

(c) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

Signed in accordance with a resolution of the directors made pursuant to s.303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors,



GEORG CHMIEL
CHAIRMAN

Adelaide

28th February 2023

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Consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2022

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	Notes	Consolidated Group Half- Year Ended 31/12/2022	31/12/2021 Restated
		$	$
Revenue		**9,290,300**	12,476,766
Cost of sales		**(4,810,880)**	(5,464,303)
Gross Profit		**4,479,420**	7,012,463
Interest expense		**(390,989)**	(453,240)
Allowance for expected credit loss		**(69,232)**	(69,171)
Amortisation & depreciation		**(1,633,200)**	(1,873,950)
Share based payments	5	**228,500**	(279,001)
Corporate and administration		**(3,159,640)**	(3,082,859)
Advertising and marketing		**(1,140,894)**	(1,042,486)
Employee costs		**(4,079,375)**	(3,241,973)
Impairment expenses	8	**(2,245,682)**	-
Costs relating to debt restructure	10	**(3,365,775)**	-
Gain/ (Loss) on fair value of derivatives	11	**2,364,293**	544,231
(Loss)/ Gain on disposal of property, plant and equipment		**(88,208)**	-
Write down of inventory		**(97,016)**	-
(Loss)/ Gain on foreign exchange		**(38,793)**	(18,825)
Loss before tax		**(9,236,591)**	(2,504,811)
Income tax benefit		**-**	688,569
Net loss for the period attributable to owners of the Company		**(9,236,591)**	(1,816,242)
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(107,000)**	(7,778)
Other comprehensive income for the period (net of tax)		**(107,000)**	(7,778)
Total comprehensive income for the period attributable to owners of the Company		**(9,343,591)**	(1,824,020)
Earnings per share			
Basic (cents per share)		**(4.77)**	(1.06)
Diluted (cents per share)		**(4.77)**	(1.06)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the attached notes.

Consolidated statement of financial position as at 31 December 2022

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	Notes	Consolidated Group As at 31/12/2022 $	Consolidated Group As at 30/06/2022 Restated $
ASSETS			
Current Assets			
Cash and cash equivalents		**4,202,118**	5,577,088
Trade and other receivables	7	**2,038,965**	3,093,840
Inventories		**5,059,223**	7,240,780
Other current assets		**498,376**	761,411
Total Current Assets		**11,798,682**	16,673,119
Non-Current Assets			
Property, plant and equipment		**119,189**	221,971
Intangibles	8	**1,225,915**	3,768,797
Right-of-use assets	9	**11,572**	104,052
Deferred tax assets		**-**	-
Total Non-Current Assets		**1,356,676**	4,094,820
Total Assets		**13,155,358**	20,767,939
LIABILITIES			
Current Liabilities			
Trade and other payables		**4,006,132**	3,976,901
Unearned Income		**936,406**	709,209
Provisions		**311,141**	581,001
Lease liabilities	9	**12,466**	109,304
Borrowings	10	**-**	3,077,683
Income tax liabilities		**86,389**	90,347
Total Current Liabilities		**5,352,534**	8,544,445
Non-Current Liabilities			
Borrowings	10	**5,000,000**	-
Derivative liabilities	11	**876,478**	1,865,495
Lease liabilities	9	**-**	-
Deferred Tax Liabilities		**1,017**	1,063
Total Non-Current Liabilities		**5,877,495**	1,866,558
Total Liabilities		**11,230,029**	10,411,003
Net Assets		**1,925,329**	10,356,936
EQUITY			
Issued capital	4	**29,383,953**	28,064,477
Reserves		**6,396,348**	6,910,841
Accumulated losses		**(33,854,972)**	(24,618,382)
Total Equity		**1,925,329**	10,356,936

The above consolidated statement of financial position should be read in conjunction with the attached notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2022

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Consolidation	Issued Capital	Accumulated Losses	Share based payment Reserve	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$	$
At 1 July 2021	**18,686,099**	**(15,777,299)**	**6,485,655**	**(42,910)**	**9,351,545**
Adjustment for correction of error	-	(660,973)	-	-	(660,973)
Balance at 1 July 2021 restated	**18,686,099**	**(16,438,272)**	**6,485,655**	**(42,910)**	**(8,690,572)**
Loss attributable to members restated	-	(1,816,242)	-	-	(1,816,242)
Currency translation differences	-	-	-	(7,778)	(7,778)
Total comprehensive income	-	(1,816,242)	-	(7,778)	(1,824,020)
Transaction with owners					
Contributions and distributions					
Shares issued	9,497,018	-	-	-	9,497,018
Options exercised	-	-	-	-	-
Cost of share issued	(327,905)	-	-	-	(327,905)
Deferred tax expense on share issue costs	-	-	-	-	-
Options issued	110,980	-	168,021	-	279,001
Transactions with owners	9,280,093	-	168,021	-	9,448,114
At 31 December 2021	**27,966,192**	**(17,593,541)**	**6,653,676**	**(50,688)**	**16,975,639**
At 1 July 2022	**28,064,477**	**(22,078,208)**	**6,816,803**	**(317,925)**	**12,485,147**
Adjustment for correction of error	-	(2,540,173)	-	411,963	(2,128,210)
Balance at 1 July 2022 restated	**28,064,477**	**(24,618,381)**	**6,816,803**	**94,038**	**10,356,937**
Loss attributable to members	-	(9,236,591)	-	-	(9,236,591)
Currency translation differences	-	-	-	(107,000)	(107,000)
Total comprehensive income	-	(9,236,591)	-	(107,000)	(9,343,591)
Transaction with owners					
Contributions and distributions					
Share issued	1,150,608	-	-	-	1,150,608
Conversion of rights to shares	200,350	-	(200,350)	-	-
Options exercised	-	-	-	-	-
Cost of share issued	(31,482)	-	-	-	(31,482)
Employee rights issued	-	-	(228,500)		(228,500)
Options issued	-	-	21,357	-	21,357
Transactions with owners	1,319,476	-	(407,493)	-	911,983
At 31 December 2022	**29,383,953**	**(33,854,972)**	**6,409,310**	**(12,962)**	**1,925,329**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the attached notes.

Consolidated statement of cash flows for the half-year ended 31 December 2022

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	Consolidated Group Half-Year Ended	
	31/12/2022	**31/12/2021**
	$	**$**
Cash flows from operating activities		
Receipts from customers	**12,176,429**	12,643,812
Payments to suppliers and employees	**(12,789,453)**	(16,271,171)
Interest and other costs of finance	**(341,589)**	(8,666)
Income tax refund	**(4,004)**	-
Net cash provided by operating activities	**(958,617)**	(3,636,025)
Cash flows from investing activities		
Payments for plant and equipment	**-**	(52,601)
Payment for research and development	**(1,225,915)**	(1,694,672)
Net cash (used in)/provided by investing activities	**(1,225,915)**	(1,747,273)
Cash flows from financing activities		
Proceeds from issue of shares	**1,150,608**	9,497,018
Share issue costs	**(10,125)**	(327,905)
Proceeds from loan	**-**	2,000,000
Repayment of loan	**(127,083)**	(204,438)
Payment of lease liabilities	**(96,838)**	(90,124)
Net cash (used in)/provided by financing activities	**916,562**	10,874,551
Net increase/(decrease) in cash held	**(1,267,970)**	5,491,253
Cash and cash equivalents at 1 July	**5,577,088**	4,185,033
Effect of exchange rate changes	**(107,000)**	(7,778)
Cash at the end of the period	**4,202,118**	9,668,508

The above consolidated statement of cash flows should be read in conjunction with the attached notes.

Notes to the Financial Statements for the half-year ended 31 December 2021

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1. SIGNIFICANT ACCOUNTING POLICIES

1.1 STATEMENT OF COMPLIANCE

The half-year financial report is a general-purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 '*Interim Financial Reporting*'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting*'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The annual financial report of the company as at and for the year ended 30 June 2022 is available on the Company's website at www.spacetalkwatch.com.

1.2 BASIS OF PREPARATION

The Consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2022 annual financial report for the financial year ended 30 June 2022 except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1.3 AMENDMENTS TO ACCOUNTING STANDARDS AND NEW INTERPRETATIONS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT REPORTING PERIOD

There are none that have a material impact for the Group to consider for the reporting period ended 31 December 2022.

1.4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2022, except for the changes disclosed in Note 2.

In preparing the interim financial statements, the Group has identified material corrections related to the accounting treatments of various items in the Group's financial statements. This has resulted in some adjustments which are identified in Note 2. Restatement of comparatives.

1.5 GOING CONCERN

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss after tax for the six month period to 31 December 2022 of $9,236,591 (31 Dec 2021: $1,816,242) and net cash outflows from operating activities of $958,617 (31 Dec 2021: $3,636,025). These conditions indicate a material uncertainty that may cast doubt about the ability of the Group to continue as a going concern.

The Directors are confident of the Group's ability to continue as a going concern for the following reasons:

- During the half year to 31 December 2022 the company finalised the restructure of its debt facility on more favourable terms, with a reduced interest rate, extended payment date on the second tranche of its debt and improved convenants appropriate for the business.
- In December 2022 the Group closed a non renounceable entitlement offer raising $1.15m (before costs). An additional $1.23m (before costs) was raised during the shortfall program in February 2023, and an additional $0.4m was raised in February 2023 when Pure Asset Management exercised its warrant for 11 million shares.
- The Board has appointed a new CEO, Simon Crowther. As former CEO of Nearmap and Managing Director of Yamaha Motor Ventures, Mr Crowther brings a wealth of valuable knowledge and a growth mindset to Spacetalk.
- The Group continues to develop new products with two new devices planned for introduction over this calendar year.
- The Group has a history of successfully raising capital, should future circumstances require this.
- The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report.

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Group's history of successfully raising capital to date, the directors are confident of the Group's ability to raise additional funds as and when they are required.

2. RESTATEMENT OF COMPARATIVES

CORRECTION OF A MATERIAL ERROR IN INCOME TAX EXPENSE

During the review of tax balances for the half year ended 31 December 2022, it was discovered that in 2021-22 a journal to income tax expense was incorrectly posted. This had resulted in an overstatement of the income tax benefit, and an understatement of foreign currency translation reserve of $411,963. Management have restated the comparatives and the following adjustment has been recorded:

- a decrease to income tax benefit and an increase to foreign currency translation reserve at 30 June 2022, representing the incorrectly recognised income tax benefit of $411,963;

CORRECTION OF A MATERIAL ERROR IN DEFERRED TAX ASSET

During the review of the deferred tax asset for the half year ended 31 December 2022, it was discovered that an error occurred in recognising the deferred tax asset balance of $1,100,272 at 30 June 2022. Having reviewed the probability of future taxable profits the Directors believe that the deferred tax asset should not have been recognised as at 30 June 2022 because it was not probable that there would be sufficient taxable profits to utilise the benefit based on forecasts available at that time. Management have restated the comparatives and the following adjustments have been recorded:

- a decrease to the deferred tax asset and an increase to the accumulated loss at 30 June 2022, representing the derecognised deferred tax asset of $1,100,272.

CORRECTION OF A MATERIAL ERROR IN THE ACCOUNTING TREATMENT OF SCHOOL LICENCE FEES

During the half-year ended 31 December 2022, management discovered that the revenue recognition of school licence fees was not in accordance with AASB 15 Revenue from Contracts with Customers. Revenue was recognised when the invoice was issued and not as the performance obligations were satisfied over time. This resulted in an overstatement of revenue of $48,236 in 2021-22 and $660,973 in previous periods. Management have restated the comparatives and the following adjustments have been recorded:

- decrease revenue by $48,236 at 30 June 2022, representing the overstated school licence fees;
- increase unearned income by $709,209 at 30 June 2022, representing the unearned income of school licence fees;
- increase accumulated loss by $660,973 at 30 June 2022, representing the reversed revenue recognised in previous periods.
- the impact of revenue on the comparative period 6 months to 31 December 2021 is an increase of $130,083.

CORRECTION OF A MATERIAL ERROR IN THE ACCOUNTING TREATMENT OF SALES RETURNS

During the review of Spacetalk wearable devices sales returns for the half year ended 31 December 2022, it was discovered that in 1Q2023 Returns received post 30 June 2022 were not provided for in the FY22 accounts. The company did not account for returns in accordance with AASB 15 Revenue from Contracts with Customers as at 30 June 2022. This resulted in an overstatement of revenue of $326,887 and cost of sales of $178,382 in 2021-22. Management have restated the comparatives and the following adjustments have been recorded:

- decrease revenue and increase provision for sales returns by $326,887 at 30 June 2022, representing the unrecognised sales return of wearable devices; and
- decrease cost of sales and increase inventories by $178,382 at 30 June 2022, representing the cost of returned wearable devices.

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CORRECTION OF A MATERIAL ERROR IN THE ACCOUNTING TREATMENT OF SALES REBATES

During the review of Spacetalk wearable devices sales rebates for the half year ended 31 December 2022, it was discovered that there was a backlog of rebate invoices relating to 2Q2022 which are under contractual terms in customer agreements, and had not been provided for. This had resulted in an overstatement of revenue of $170,224 in the year ended 30 June 2022. Management have restated the comparatives and the following adjustments have been recorded:

- decrease revenue and increase provision for rebates by $170,224 at 30 June 2022, representing the unrecognised sales rebates.

These errors have been rectified by restating each of the affected financial statement line items for prior reported periods as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Group Period Ended		
	31/12/2021		31/12/2021
	$	$	$
	Reported	Adjustment	Restated
Extract			
Revenue	12,346,683	130,083	**12,476,766**
(Loss)/Profit for the year	(1,946,325)	130,083	**(1,816,242)**
Impact of Earnings per share			
Basic (cents per share)	(1.14)		**(1.06)**
Diluted (cents per share)	(1.09)		**(1.06)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Group Year Ended		
	30/06/2022		30/06/2022
	$	$	$
Extract	**Reported**	**Adjustment**	**Restated**
ASSETS			
Trade and other receivables	3,590,951	(497,111)	**3,093,840**
Inventories	7,062,398	178,382	**7,240,780**
Deferred tax asset	1,100,272	(1,100,272)	**-**
Total Assets	22,186,940	(1,419,001)	**20,767,939**
LIABILITIES			
Unearned Income		709,209	**709,209**
Total Liabilities	9,701,794	709,209	**10,411,003**
EQUITY			
Reserves	6,498,878	411,963	**6,910,841**
Accumulated losses	(22,078,209)	(2,540,173)	**(24,618,382)**
Total Equity	12,485,146	(2,128,210)	**10,356,936**

3. SEGMENT INFORMATION

3.1 PRODUCTS AND SERVICES FROM WHICH REPORTABLE SEGMENTS DERIVE THEIR REVENUES

The Group operates predominately in three business segments, defined by the Group's different product and service offerings.

The groups reportable segments under AASB 8 are therefore as follows:

- School messaging services
- Smart watches and apps
- Other

This is the basis by which management controls and reviews the operations of the Group. Segment results are routinely reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance on the same basis. No operating segments have been aggregated in arriving at the reportable segments of the group.

The school messaging reportable segment provides school messaging services and licence fees to various schools

Smart watches and apps reportable segment supply the 'Spacetalk' smart watches and applications through retail distribution networks and online sales.

'Other' is the aggregation of the Group's other various sundry income and expenses.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

No operations were discontinued during the current financial year.

3.2 SEGMENT REVENUES AND RESULTS

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Segment revenue		**Segment profit / (loss)**	
	Half Year Ended		**Half Year Ended**	
	31/12/2022	**31/12/2021**	**31/12/2022**	**31/12/2021**
		Restated		**Restated**
School messaging services	**1,144,962**	1,101,241	**(4,837,840)**	(432,189)
Smart watches and apps	**8,045,450**	11,341,240	**(4,398,751)**	(1,384,053)
Other	**99,888**	34,285	**-**	-
Total for Continuing Operations	**9,290,300**	12,476,766		
Loss after tax (continuing operations)			**(9,236,591)**	(1,816,242)

Segment revenue reported above represents revenue generated from external customers by each service or product.
There were no inter-segment sales in the current period (2021: nil).

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3.3 SEGMENT ASSETS AND LIABILITIES

Segment assets and liabilities

	Assets		Liabilities	
	As at		As at	
	31/12/2022	**30/06/2022**	**31/12/2022**	**30/06/2022**
		Restated		**Restated**
School messaging services	**1,016,409**	5,929,174	**3,185,812**	9,370,331
Spacetalk proprietary	**6,710,916**	9,010,951	**3,043,201**	949,262
Total segment assets/ liabilities	**7,727,325**	14,940,125	**6,229,013**	10,319,593
Unallocated assets/ liabilities	**5,428,033**	5,827,814	**5,001,016**	91,410
Consolidated Assets	**13,155,358**	20,767,939		
Consolidated Liabilities			**11,230,029**	10,411,003

For the purpose of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than cash and R&D incentives.
- All liabilities are allocated to reportable segments other than deferred tax liabilities, current tax liabilities and borrowings.

3.4 GEOGRAPHICAL INFORMATION

- The Group's revenue from external customers by geographical location are detailed below:

Revenue by geography

	Half Year Ended	
	31/12/2022	**31/12/2021 Restated**
Australia & New Zealand	**6,844,743**	**9,179,563**
United Kingdom	**1,488,901**	**3,297,203**
United States	**956,656**	**-**
Total	**9,290,300**	**12,476,766**

Revenues in Australia result from Schools messaging services and Spacetalk watch sales. Revenue from New Zealand results from the Group's preferred supplier status to New Zealand Government's Early Notification initiative and Spacetalk watch sales. Revenues in the United Kingdom relate to Spacetalk watch sales. Revenues in the United States relate to Spacetalk watch sales and JumpySim subscriptions.

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4. ISSUES OF EQUITY SECURITIES

During the half-year the following fully paid ordinary shares were issued:

	Number of fully paid ordinary shares	Issued Capital
		$
Balance at 30 June 2022	**216,355,749**	**28,064,477**
Capital raising	**38,353,590**	**1,150,608**
Employee incentive rights vested	**1,490,000**	**200,350**
Share issue cost	**-**	**(31,482)**
Balance at 31 December 2022	**256,199,339**	**29,383,953**

During the 6 months to 31 December 2022, the Company undertook a capital raise which resulted in the issue of 38,353,590 shares and raising $1,150,608 (1H 2022: 42,105,262 shares and $8,000,000). In addition, 1,490,000 shares were issued as a consequence of rights vesting under the employee incentive plan (1H2022: 407,500).

5. SHARE BASED PAYMENTS

There were a number of employee rights granted during the half-year. The performance rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Remuneration Committee. The rights vest subject to performance conditions specific to the individual employees and continued employment. The valuation model inputs used to determine the fair value as at grant date were as follows:

Grant Date	Expiry Date	Share price at grant date	Exercise price	Rights life	Dividend Yield	Fair value at grant date	Number of rights	Vesting date
16/12/2022	01/03/2023	$0.030	$0.00	0.21	$0.00	$0.030	1,974,242	01/03/2023
16/12/2022	31/08/2023	$0.030	$0.00	0.71	$0.00	$0.030	1,347,221	31/08/2023
16/12/2022	31/08/2024	$0.030	$0.00	1.71	$0.00	$0.030	1,347,222	31/08/2024
16/12/2022	01/03/2025	$0.030	$0.00	2.71	$0.00	$0.030	1,347,223	01/03/2025
18/12/2022	31/08/2023	$0.030	$0.00	0.70	$0.00	$0.030	361,111	31/08/2023
18/12/2022	31/08/2024	$0.030	$0.00	1.70	$0.00	$0.030	361,111	31/08/2024
18/12/2022	01/03/2025	$0.030	$0.00	2.70	$0.00	$0.030	361,111	01/03/2025
19/12/2022	31/08/2023	$0.028	$0.00	0.70	$0.00	$0.028	666,665	31/08/2023
19/12/2022	31/08/2024	$0.028	$0.00	1.70	$0.00	$0.028	666,667	31/08/2024
19/12/2022	01/03/2025	$0.028	$0.00	2.70	$0.00	$0.028	666,667	01/03/2025
20/12/2022	31/08/2023	$0.028	$0.00	0.70	$0.00	$0.028	402,777	31/08/2023
20/12/2022	31/08/2024	$0.028	$0.00	1.70	$0.00	$0.028	402,778	31/08/2024
20/12/2022	31/08/2025	$0.028	$0.00	2.70	$0.00	$0.028	402,778	31/08/2025
28/12/2022	01/03/2023	$0.026	$0.00	0.67	$0.00	$0.026	291,666	01/03/2023
28/12/2022	31/08/2024	$0.026	$0.00	1.68	$0.00	$0.026	291,667	31/08/2024
28/12/2022	31/08/2025	$0.026	$0.00	2.68	$0.00	$0.026	291,667	31/08/2025

The expense in relation to these equity-settled share-based payment transactions have been included in profit and loss and credited to share based payment reserve. During the period, and expense of $127,620 has been recorded in relation to new and existing performance rights. An amount of $356,120 relating to share based payments expense recognised in previous periods have been reversed in the profit or loss this period resulting from forfeiture of performance rights.

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The following table outlines the number of incentive rights on issue and movements during the reporting periods presented:

Number of rights	As at 31 Dec 2022
As at 30 June 2022	10,618,000
Less: Options included in opening balance	(2,600,000)
Incentive rights balance as at 30 June 2022	**8,018,000**
Correction to opening balance	(195,000)
Restated balance as at 30 June 2022	**7,823,000**
Exercised during the period	(1,490,000)
Lapsed/forfeited during the period	(4,945,000)
Granted during the period	11,182,573
Balance at 31 December 2022 for accounting recognition	**12,570,573**

Incentive rights of 9,208,331 (included in above amount of 11,182,573) were offered and accepted in December 2022 and granted in January 2023.

6. DIVIDENDS

No dividends were declared or paid for the period ended 31 December 2022 (2021: nil).

There were no dividends reinvested in 2022 (2021: $nil).

7. TRADE AND OTHER RECEIVABLES

	Half Year Ended	Year Ended
	31/12/2022	**30/06/22**
Trade receivables	**2,108,197**	3,161,092
Loss allowances	**(69,232)**	(67,252)
	2,038,965	3,093,840

8. INTANGIBLE ASSETS

	Distribution Rights	Capitalised Development Costs	Total
Cost	**$**	**$**	**$**
Balance at 30 June 2022	441,017	20,799,837	**21,240,854**
Additions from internal developments	-	1,225,915	**1,225,915**
Balance at 31 December 2022	441,017	22,025,752	**22,466,769**
Accumulated amortisation and impairment			
Balance at 30 June 2022	(396,907)	(17,075,150)	**(17,472,057)**
Amortisation	(12,421)	(1,510,694)	**(1,523,115)**
Impairment	(31,689)	(2,213,993)	**(2,245,682)**
Balance at 31 December 2022	(441,017)	(20,799,837)	**(21,240,854)**
Carrying Value 31 December 2022	-	**1,225,915**	**1,225,915**

As at the 31 December 2022 the Group has undertaken an assessment of the recoverability of its intangible assets. As a result of this assessment the Group has decided to impair the carrying value of intangible assets by $2.2m This impairment is to previously capitalised product and project developments costs that have either been discontinued or are deemed to have no future benefit.

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9. LEASES

9.1 RIGHT-OF-USE ASSET

	Building	Vehicle	Total
Cost	**$**	**$**	**$**
Balance at 30 June 2022	691,379	33,176	**724,555**
Additions	-	-	**-**
Balance at 31 December 2022	691,379	33,176	**724,555**
Accumulated amortisation and impairment			
Balance at 30 June 2022	(587,327)	(33,176)	**(620,503)**
Amortisation	(92,480)	-	**(92,480)**
Balance at 31 December 2022	(679,807)	(33,176)	**(712,983)**
Carrying Value 31 December 2022	11,572	-	**11,572**

9.2 LEASE LIABILITIES

	31/12/2022	30/06/2022
Maturity analysis	**$**	**$**
Less than one year	**14,567**	111,254
Between 1 and 5 years	**-**	-
	14,567	111,254
Less: unearned interest	**(2,101)**	(1,950)
	12,466	109,304
Analysed as:		
Current	**12,466**	109,304
Non-current	**-**	-
	12,466	109,304

Included in interest expense in the consolidated statement of profit or loss and other comprehensive income is interest on lease liabilities of $2,102 (2021:$ 3,929).

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10. BORROWINGS

	31/12/2022	30/06/2022
Current	**$**	**$**
Term loan	-	5,000,000
Unamortised transaction costs	-	(1,922,317)
Total Current	-	3,077,683
Non-current		
Term loan	**5,000,000**	-

In November 2022, the Company restructured its facility agreement with Pure Asset Management Pty Ltd (Pure AM) to extend the repayment dates of the facility to 1 July 2024 and 20 March 2025 for the $3 million and $2 million facilities. As part of this restructure, Spacetalk has agreed to pay an establishment fee of 1.5% of the total facility and issue of an additional 90 million warrants. The restructure resulted in a substantial modification of the existing loan outstanding.

As a result of the modification, previous transaction costs remaining on the loan at the date of modification were accelerated to the profit and loss and the new establishment fee and issue of the additional warrants were also recognised to the profit loss as part of the costs relating to the debt restructure.

Costs relating to the debt restructure.

Breakdown of costs	**$**
Acceleration of unwound transaction costs	1,922,317
Establishment fee	68,182
Issue of new Warrants	1,375,276
Total debt restructuring costs	**3,365,775**

A new warrant liability was recognised at its fair value of $1,375,276 on 21 November 2022, based on a Black Scholes valuation model.

Assumptions applied were as follows:

Valuation date	Share Price at 21 November 2022	Exercise Price	Expected Volatility	Warrant Life remaining	Fair Value per warrant at Valuation Date	Number of Warrants on issue	Total fair value of warrants
21 November 2022	$0.037	$0.06	92%	2.3 years	$0.0153	90,000,000	$1,375,276

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11. DERIVATIVE LIABILITIES

	31/12/2022	30/06/2022
	$	$
Warrant liabilities	876,478	1,865,495

As part of the loan facility disclosed in note 9, the Company has issued additional warrants to Pure AM that can be exercised for a total of 90 million fully paid-up shares. The warrants can be exercised at any point of time up to 13 March 2025. The warrant liabilities are measured at fair value through profit or loss and have an exercise price of $0.06.

Existing warrants issued as part of the original loan facility with Pure AM could be exercised for a total of 11 million fully paid-up shares. The warrants can be exercised at any point of time up to 11 March 2025. During the period, the warrants exercise price was adjusted from $0.2169 to $0.034 resulting from the Company's November 2022 capital raising and share purchase plan, which triggered a repricing clause within the Warrant Deed. The warrants have been classified as a liability financial instrument due to the fact that they have a variable exercise price.

Key assumptions used in determining the fair value of the warrants at 31 December 2022

Valuation date	Share Price at 31 December 2022	Exercise Price	Expected Volatility	Warrant Life remaining	Fair Value per warrant at Valuation Date	Number of Warrants on issue	Total fair value of warrants
31 December 2022	$0.026	$0.06	92%	2.2 years	$0.0083	90,000,000	$745,591
31 December 2022	$0.026	$0.034	92%	2.2 years	$0.0119	11,000,000	$130,887
Total							$876,478

This derivative financial liability has been valued using quoted market rates (level 2 input). This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

During the half year there was a gain on fair value of derivatives of $2,364,293 recognised in the Statement of Profit and Loss and Comprehensive Income, as a result of accounting standards requirement to fair value warrants and derivative liabilities related to the restructured debt facility with Pure Asset Management ("Pure"). This amount consisted of $629,685 related to the existing warrant to Pure for 11 million shares together with $1,734,608 related to the derivative liability for the warrant of 90 million shares as part of the restructured debt facility but subject to shareholder approval (received 15 February 2023).

12. EVENTS AFTER REPORTING DATE

PURE ASSET MANAGEMENT EXERCISE WARRANT

On 6 February 2023 Pure Asset Management exercised their existing warrant over 11 million shares. Consideration of $396,000 has been received by the Company as a result of this exercise.

COMPLETION OF NON-RENOUNCEABLE RIGHT ISSUE SHORTFALL

The Company Entitlement Offer announced in November 2022 finalised a shortfall share issue in February 2023 resulting in additional $1.23m capital raised (before costs), representing 41,023,334 ordinary shares and 20,511,667 options. Included in the $1.23m is $230k received from the Directors of Spacetalk, representing 7,690,000 ordinary shares and 3,845,000 options. In addition, the shareholders have also approved the issuance of 826,024 performance rights to the directors of Spacetalk in February 2023.

13. COMMITMENTS

There have been no changes to commitments since 30 June 2022.

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