

ASX RELEASE

28 April 2023

Kleos Q1 2021 Activities Update and Outlook

Highlights:

- ✓ Q1 Revenue of >1 Million Euros (A\$1.6M) achieved;
- ✓ U.S. Government Agency Stage 2 contract awarded;
- ✓ UK Government Agency contract awarded;
- ✓ Continuous operational processed data & intelligence deliveries through the quarter achieved;
- ✓ Spacecraft operations license renewed;
- ✓ Standard Collection Zones (SCZ) based product roll out launched, with 2x product levels;
 - Locate (Geospatial Data)
 - Locate+ (Enhanced Geospatial Data)
- ✓ Vigilance Mission (KSF1) satellites entered operations, delivering repeatable data against agreed Service Level;
- Patrol Mission (KSF2) satellites beginning orbit raise manoeuvre, completing Q2;
- Observer Mission (KSF3) satellites continuing commissioning while one satellite presents an operational risk with no revenue impact, completing Q3;
- Capital raise being executed to deliver necessary funds to fuel growth in sales and marketing team, while also curing a Pure debt covenant breach.

Kleos Space S.A. (ASX: KSS, Frankfurt: KS1, Kleos or the Company), a space-powered defence & intelligence technology company, provides the following update for the quarter ended 31 March 2023 (**Q1 2023**) along with its Appendix 4C.

Commenting on recent progress, Alan Khalili, CEO said:

"Our strong Q1 2023 revenue growth, which was approximately 4 times higher than the previous fiscal full year, reflects the start of successful execution of our strategy to provide innovative space-based surveillance and reconnaissance solutions to support the national security needs of governments around the world. The award of the Stage Two option on our current contract with a US Government Agency, as well as the multi-month data delivery contracts from UK and EU Government customers, is a testament to our industry-leading technology and expertise. We remain committed to expanding our Standard Collection Zones and increasing our customer base as we move forward with our constellation deployment plan."

Revenuesⁱ

Revenues in Q1 2023 were 1,060,000 Euros (approximately 4x the revenue achieved in full FY22) with Gross Profit of 85% and EBITDA of 63%. Q1 revenue included the recognition of 900,000 Euros of non-recurring revenue relating to the satisfaction of a government contract for which payment was received in 2022. Therefore, the Company anticipates building recurring revenues as subscribers to the service increase over the coming quarters.

Contract Awardsⁱ

1. In the quarter Kleos Space Inc., a subsidiary of Kleos Space S.A., was awarded the Stage Two option on its current contract with the US Government as part of the Strategic Commercial Enhancements Broad Agency Announcement (SCE BAA) Framework.

Under the Stage Two effort, Kleos will provide insights into how to optimise evolving commercial RF geolocation capability and enhance and augment existing capabilities in a persistent, resilient, cost-effective manner with products that are also easily shareable across the US Government, international partners, and allies.

The newly awarded Second Stage emphasises tasking, data collection, and direct delivery of data to US government end-users. An option for future purchases of Kleos data and products to support extended development and experimentation was also exercised.

2. In the quarter, Kleos Space Ltd., another Kleos Space S.A. subsidiary, was awarded a contract for multi-month data delivery from a UK Government customer.
3. Post quarter, Kleos Space S.A. was informed it had won a contract for multi-month data delivery from an EU Government customer.

Partnering

In the quarter a partnering agreement was signed with Ursa Space Systems, a global satellite intelligence infrastructure provider, to join its Virtual Constellation, the world's largest database of satellite imagery from the most trusted SAR, optical, and RF data vendors around the globe.

The agreement was signed at DGI 2023 in London, UK. Under the agreement, Ursa will have access to the Locate intelligence product which enhances Ursa Space's analytics platform.

Ursa Space holds the world's largest Virtual Constellation of satellite imagery and data fusion capabilities from the most trusted SAR, optical, and RF data vendors around the globe. Customers can search and order archive imagery and task new images from the world's largest network of SAR satellites, as well as glean custom data analytic results.

"The addition of the Kleos Locate product will accelerate our Tip and Cue capabilities by adding a key layer to our data fusion process," said Eric Cote, Director of Data & Analytic Services at Ursa Space. "Their innovative techniques and corresponding data product will further enhance our monitoring and analysis services, contributing to a seamless and validated analytic result for Ursa's customers."

Intelligence Deliveryⁱ

Kleos' intelligence products have now been delivered to government and commercial customers against a daily operational service level for a consistent three-month period.

The Company currently offers intelligence data products that are generated by processing data collected by Kleos satellites as:

- Locate (a geospatial product, i.e., the location of a transmitter complete with meta data)
- Locate+ (a combined product of the geospatial data along with additional data from the spacecraft sensors).

The intelligence data products are delivered from predefined Standard Collection Zones (**SCZs**) that contain numerous customer areas of interest. Current SCZs are Europe and Asia Pacific, with further growth and expansion during 2023. Revenues are generated by selling subscriptions granting a license to access the intelligence data products on an SCZ basis.

Monthly licenses for Standard Collection Zones (prior to any required additional services) are sold on at approximately €300,000 - €500,000 per year, per license equivalent basis.

Spacecraft Operational Licensing

In the quarter the Luxembourg Ministry of Economy confirmed that the authorisation for the Company to operate a constellation of up to eighty spacecraft has been issued, following fulfilment of the administrative requirements of a new licencing regime, that was required to be completed by 17 March 2023.

Constellation Statusⁱ

The Vigilance Mission (KSF1) is operational and at the data generation stage. Current remaining life of the mission due to natural orbit degradation is estimated at approximately 16 months, which is line with the design parameters.

The Observer Mission (KSF2) is anticipated to be operational in Q3 2023 following the completion of an orbit raise manoeuvre to compensate for natural orbit degradation. The remaining life of the mission is expected to be approximately 30 months, which is line with the design parameters.

The Patrol Mission (KSF3), which was launched in this quarter, is expected to become operational in early Q3 of 2023. While there has been a communication loss with the KSF3-C satellite, the satellite manufacturer is confident that they can recover it with remedial action. In the unlikely event that the satellite cannot be recovered, the mission's revenue generation capabilities will not be affected. The mission is expected to continue for approximately 42 months, in line with its design parameters.

Communications Update

During the quarter, the Company continued building a trusted profile in the industry by:

- Exhibiting at DGI in London
- Speaking at SmallSat Symposium in San Francisco
- Attending the European Space Conference in Brussels
- Holding an open day at the Luxembourg HQ.

FINANCIAL ACTIVITY

Capital Raise

The Company is currently evaluating capital raise options for execution in May 2023.

Pure Loan Facility

As of 31 March 2023, the cash balance held by Kleos was 1.4 million Euros. Under the financial covenants of the facility agreement entered into with Pure Asset Management (“Pure”) in August 2022, the Group is to maintain a cash balance greater than 1.25 million Euros. In early April, the Company’s cash balance dropped below the required 1.25 million Euros, resulting in a covenant breach. Because Pure has agreed to accept firm commitments from investors as a cure for the breach, Management believes the above-mentioned capital raise will resolve this covenant breach.

Summary

Q1 2023 cash receipts were AUD 2.32 million (1.45 million Euros). The Appendix 4C quarterly cash flow report for Q1 2023 is attached. Total cash outflow in the quarter was AUD 0.55 million (0.34 million Euros), after a net operating cash outflow of AUD 2.38 million (1.48 million Euros). The following is a summary of receipts and expenditures for business activities in the 1st 2023 quarter (refer also accompanying ASX Appendix 4C):

(EUR'000)	March Qtr	Year to date
		(3 months)
Receipts from customers	203	203
Product manufacturing and operating costs	(195)	(195)
Research and development	(2)	(2)
SG&A (Corporate Overhead)	(1,487)	(1,487)
Investing Activities	(175)	(175)
Financing payments / receipts	1,243	1,243
Other (F.X. movement on cash balance)	73	73

Payments to related parties

The aggregate amount of payments to related parties and their associates included in item 6.1 in the Appendix 4C is for payment of Directors’ fees.

- ENDS -

This announcement has been authorised by the Board of Kleos Space S.A.



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About Kleos Space S.A.

Kleos is a Space-powered defence & intelligence technology Company with operations in Luxembourg, the U.S. and U.K. Kleos uses RF sensors in Space to collect radio transmissions (RF Data) in key areas of interest around the globe. Collected data is processed through Kleos' proprietary processing platform delivering an intelligence output, to efficiently uncover and expose activity on land and sea. Intelligence product customers, including analytics and intelligence entities, license data on a subscription basis (Data-as-a-Service aka DaaS), for government and commercial use cases – aiding better and faster decision making. Kleos' first satellite cluster, the Scouting Mission (KSM), successfully launched in November 2020 and performed as a test and technology demonstration whilst collecting data. The Company's second satellite cluster, the Vigilance Mission, successfully launched in June 2021 and its Patrol Mission launched in April 2022. Kleos' fourth cluster, the Observer Mission, was launched in January 2023. For more information visit: www.kleos.space

ⁱ: The statements relating to the constellation status, delivery of the LOCATE product and revenue timings involve known and unknown risks, uncertainties and other factors that may cause the Company's actual performance, and achievements to differ materially from any performance or achievements, expressed or implied by these statements including the ability of any individual satellite to generate useful collected data. Relevant factors may include, but are not limited to, technological resourcing, technical and launch delays, satellite health status, the ability for the satellite manufacturer to resolve any known or unknown issues in a timely manner, accounting treatment of assets to comply with IFRS rules, foreign exchange fluctuations and general economic conditions, increased costs, the risk and uncertainties associated with space technology, Geopolitical and social risks, supplier delivery issues, changes to the regulatory framework within which the Company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues, covid 19 or other pandemic impacts, and litigation. The Company monitors these factors in order to make periodic assessments, which could result in the impairment of the intellectual property and satellite assets which are not able to contribute to free cash flow as intended. There is a high likelihood that the year-end impairment assessment will not be concluded before an anticipated equity offering has been completed. If a satellite/cluster is impaired, there will an expenditure to the Company, but this will have zero cash impact on the Company. Also, there is a risk that the long-term revenues associated with the cluster may be negatively impacted and/or that short-term revenues may be delayed until the next cluster becomes commercially operational. For further information as to the risks which may impact the Company's results and performance, please see the risk factors included in the Prospectus lodged with ASX in August 2018.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Kleos Space S.A.

ABN

625 668 733

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter EURO'000	Year to date (3 months) EURO'000
1. Cash flows from operating activities		
1.1 Receipts from customers	203	203
1.2 Payments for		
(a) research and development	(2)	(2)
(b) product manufacturing and operating costs	(195)	(195)
(c) advertising and marketing	(7)	(7)
(d) leased assets	(27)	(27)
(e) staff costs	(1,049)	(1,049)
(f) administration and corporate costs	(389)	(389)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	(15)	(15)
1.7 Government grants and tax incentives		
1.8 Other (VAT reimbursement)	0	0
1.9 Net cash from / (used in) operating activities	(1,481)	(1,481)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(175)	(175)
(d) investments		
(e) intellectual property		

Consolidated statement of cash flows		Current quarter EURO'000	Year to date (3 months) EURO'000
2.2	(f) other non-current assets Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(175)	(175)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,265	1,265
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(12)	(12)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(9)	(9)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)	(1)	(1)
3.10	Net cash from / (used in) financing activities	1,243	1,243
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,760	1,760
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,481)	(1,481)

Consolidated statement of cash flows		Current quarter EURO'000	Year to date (3 months) EURO'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(175)	(175)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,243	1,243
4.5	Effect of movement in exchange rates on cash held	73	73
4.6	Cash and cash equivalents at end of period	1,420	1,420

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter EURO'000	Previous quarter EURO'000
5.1	Bank balances	1,420	1,760
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,420	1,760

6.	Payments to related parties of the entity and their associates	Current quarter EURO'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(17)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end EURO'000	Amount drawn at quarter end EURO'000
7.1	Loan facilities	4,215	4,215
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	4,215	4,215
7.5	Unused financing facilities available at quarter end	0	
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>The company has received a loan of €146,456.98 from the Luxembourg government. The loan bears interest at 0.5% with repayment over the 4 years 2022 to 2025.</p> <p>The company has received a second loan, split into two tranches of AUD 6m and AUD 4m, from Pure Asset Management. The loan currently bears interest at 12% and will decrease once revenue targets are met. The company does not currently meet the covenants to draw tranche two. The loan will be repaid in full by August 2026.</p>		

8.	Estimated cash available for future operating activities	EURO'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,481)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,420
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	1,420
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1
<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>		
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?</p> <p>Answer: No. Operating cashflow expected to improve now that satellite cluster is operational and customer contracts are being entered into.</p> <p>8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?</p> <p>Answer: Yes. Future capital raise is planned.</p>	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, as a going concern

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 April 2023

Authorised by: The Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.