

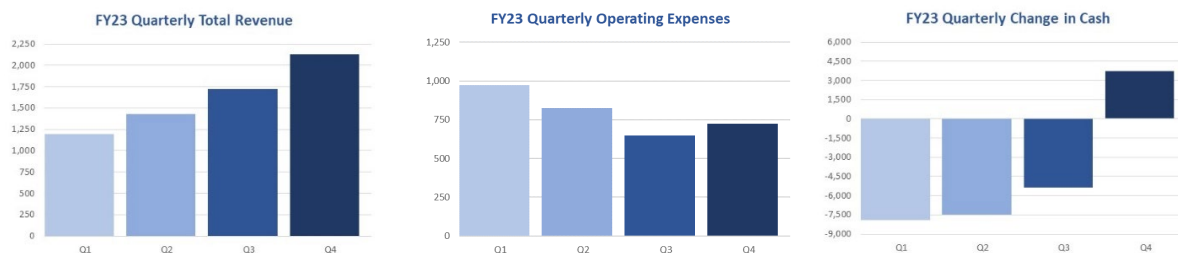
31 July 2023

Appendix 4C Release – Quarter to 30 June 2023

Sovereign Cloud Holdings Limited (“SOV” the “Company”), trading as “AUCloud”, is pleased to provide its activity update for the quarter ended 30 June 2023 (“Q4FY23”).

Key Highlights – Q4FY23

- Total Revenues (TR) of \$2.1M, up 23% on Q3 and up 79% compared to Q1 FY23
- 58% of Total Revenue is Annual Recurring Revenue (ARR), which was up 2% on Q3 and has grown 35% since Q1. The Q4 mix in ARR is 56% Cloud Services and 44% Cyber Security Solutions.
- Operating Expenses \$725K increased 12% compared to Q3 with greater investment in sales and marketing in Q4. Operating Expenses are down 25% compared to Q1.
- Cash Balance net of debt of \$11.3 million.
- The Company completed an \$8 million Entitlement Offer in June 2023, increasing cash to \$11.6 million and debt was reduced to \$0.35 million at 30 June 2023.
- Q4 FY23 new contracts signed, including extensions, totalled \$1.9M, up 83% on the prior quarter.
- Operating metrics of Average Revenue per Day (\$13k) and ARPU (\$87k) remained stable, with no customer churn.



Q4 FY23 compared to Q3 FY23

Total Revenue (TR) increased 24% in Q4 FY23 compared to Q3 FY23. The Annual recurring revenue (ARR) portion of TR increased by 2% to reflect an annualised run rate of \$4.9M. ARR remained stable on no customer churn.

The Company benefited from stronger customer usage for compute and storage, and growth in Security Operations Centre (SOCaaS) services, including new customers and hosting various AEC by-elections.

TR continues to benefit from the strategic partnership with Arqit, to support the deployment of the Asia Pacific region’s first Quantum Safe Symmetric Key Agreement Platform as a Service. The revenue uplift associated with Arqit is offset by higher licence fees represented in the increased cost of sales. The license fees and service costs continue to support the deployment of the Arqit contract and will continue to generate low incremental margins. These look-through profit margins will improve as new contract expansions are secured over time given the relatively fixed cost nature of the licence fees.

The company continues to focus on aligning costs to the strategic direction. Operating expenses increased in Q4 FY23 as a result of greater investment in strengthening sales and marketing capability. In Q4 the Company increased brand awareness, implemented a digital marketing strategy, and deepened industry, partner and customer engagement through targeted activities.

Q4 FY23 contracts signed totalled \$1.9M, up 83% on the prior quarter. Sales momentum accelerated towards the end of the quarter, with June 2023 new contracts exceeding \$1.4M, resulting in TCV increasing by 10% compared to May 2023, and down 4% on the prior quarter on the back of higher consumption. Material new customer acquisition included 2 Federal Government Agencies and multiple Enterprise accounts.

The new customer acquisition pipeline continues to grow and the Company continues to focus on maximising sales effectiveness.

Headcount has reduced from 66 to 64 in June 2023, and further rationalisation is forecast for Q1 FY24.

The Company is expanding its offering in Cyber Security through developing new solutions, and continues to explore opportunities to partner or acquire capabilities to leverage the success of the Security Operations Centre and move deeper into the cyber security ecosystem. The Company is also exploring opportunities in the Multi-Cloud and Public Cloud markets, to leverage the capital invested in the existing Sovereign Cloud platforms.

Free Cash Flow

The Company incurred negative free cash flow ("**FCF**") of \$3.5 million before financing activities an improvement of \$1.9 million compared to \$5.4 million Q3 FY23 and an improvement of \$3.9million compared to \$7.4 million in Q2FY23.

- Net cash outflow from operations of \$3.3 million;
- Cash outflow from investing activities (capital expenditure) reduced to \$188,000.

Included at item 6.1 of the Appendix 4C are payments to related parties and their associates of \$263,000 for director fees, excluding reimbursements of out-of-pocket expenses.

The Company completed an \$8 million Entitlement Offer in June 2023, increasing cash to \$11.6 million and debt was reduced to \$0.35 million as at 30 June 2023.

Peter Maloney

Managing Director

31 July 2023

END

This ASX announcement was authorised for release by AUCloud's Board of Directors.

Further information, please contact:

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About AUCloud

AUCloud is an Australian owned and operated Cyber Security Managed Security Service Provider (MSSP) and Sovereign Cloud Service (IaaS) specialist that supports Australian Governments, Critical National Industries (CNIs) with the latest sovereign cloud infrastructure, backup and cyber security threat defence and response services. AUCloud solutions enable customers to benefit from sovereign data protection with the scale, automation, elasticity and lower costs typically associated with global cloud offerings.

AUCloud's Sovereign Cloud Service (IaaS) and Cyber Security Solutions are underpinned by a range of security certifications, including "Certified Strategic" on Digital Transformation Agency's Hosting Certification Framework (HCF), assessed to the PROTECTED controls of the Australian Signals Directorate's (ASD) Information Security Manual (ISM) through to the Australian Cyber Security Centre's Cloud Assessment and Authorisation Framework (CAAF), inclusive of the Information Security Registered Assessors Program (IRAP) certification and ISO 27001. This provides AUCloud's customers with confidence that their data is secure and that services are delivered to the highest standards.

Appendix 4C

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

Name of entity

Sovereign Cloud Holdings Limited

ABN

80 622 728 189

Quarter ended ("current quarter")

June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,958	6,013
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,308)	(6,017)
(c) advertising and marketing	(32)	(146)
(d) leased assets	-	-
(e) staff costs	(3,045)	(12,838)
(f) administration and corporate costs	(847)	(3,696)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	143
1.5 Interest and other costs of finance paid	(44)	(211)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	163
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(3,318)	(16,392)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(188)	(5,912)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) * \$A'000
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 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	(188)	(5,912)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	7,985	7,985
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	(78)	(78)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(298)	(1,084)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (ROU Repayments)	(379)	(1,396)
3.10 Net cash from / (used in) financing activities	7,230	5,427

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) * \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,916	28,714
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,318)	(16,589)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(188)	(5,912)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,230	5,427
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	11,640	11,640

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 \$A'000	Previous quarter \$A'000
5.1	Bank balances	11,534	7,831
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	106	85
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	11,640	7,916

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	263
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0

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 \$A'000	Amount drawn at quarter end \$A'000																				
7.1 Loan facilities	353	353																				
7.2 Credit standby arrangements																						
7.3 Other (please specify)																						
7.4 Total financing facilities	353	353																				
7.5 Unused financing facilities available at quarter end		0																				
7.6 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>The company has historically funded part of the computer hardware & related assets required to run its business under finance lease arrangements where the Company chooses the equipment required which is then purchased by a third party (often a company related to the supplier of the equipment). Details of each facility is summarised below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Lender</th> <th style="text-align: center;">Balance Owning \$'000</th> <th style="text-align: left;">Maturity date</th> <th style="text-align: center;">Interest Rate</th> </tr> </thead> <tbody> <tr> <td>Cisco Capital #2</td> <td style="text-align: center;">67</td> <td>September 2023</td> <td style="text-align: center;">5.10%</td> </tr> <tr> <td>Cisco Capital #3</td> <td style="text-align: center;">101</td> <td>November 2023</td> <td style="text-align: center;">5.53%</td> </tr> <tr> <td>Cisco Capital #4</td> <td style="text-align: center;">185</td> <td>November 2023</td> <td style="text-align: center;">5.47%</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">353</td> <td></td> <td></td> </tr> </tbody> </table> <p>The above finance facilities are secured by the respective computer equipment and software assets acquired.</p> <p>The above facilities exclude lease liabilities relating to right-of-use leased assets, such as data centres.</p>			Lender	Balance Owning \$'000	Maturity date	Interest Rate	Cisco Capital #2	67	September 2023	5.10%	Cisco Capital #3	101	November 2023	5.53%	Cisco Capital #4	185	November 2023	5.47%	Total	353		
Lender	Balance Owning \$'000	Maturity date	Interest Rate																			
Cisco Capital #2	67	September 2023	5.10%																			
Cisco Capital #3	101	November 2023	5.53%																			
Cisco Capital #4	185	November 2023	5.47%																			
Total	353																					

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,121)
8.2 Cash and cash equivalents at quarter end (item 4.6)	11,640
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	11,640
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.51
<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>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
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?	
Answer: NA	
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?	
Answer: NA	
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: NA	
<i>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.</i>	

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: 31 July 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.