

ASX Release

27 October 2021



Q1 FY22 QUARTERLY ACTIVITIES REPORT & APPENDIX 4C

DUG Technology Ltd (ASX: DUG) (“**DUG**” or the “**Company**”) is pleased to provide this update on activities and the Appendix 4C for the quarter ended 30 September 2021.

Highlights

- Total cash held increased during Q1 FY22 to US\$10.54 million at 30 September 2021 (30 June 2021: US\$10.02 million).
- The Company has completed a A\$15 million share placement resulting in A\$13.41 million being received in Q1 FY22 with the balance of placement proceeds received after the quarter end.
- Loan repayments of US\$5.25 million were made to reduce the balance of CBA term debt to US\$12.45 million - the maturity date of this loan was extended to 1 July 2022.
- Total revenue earned from external customers for Q1 FY22 was US\$8.69 million.
- An agreement was entered into with Austal Ltd for the provision of high-performance computing as a service (HPCaaS) using DUG McCloud over a term of 12 months.
- The Company signed an option to lease 44.5 hectares of land in Geraldton, Western Australia where it plans to build the world’s first climate-positive HPC campus, powered by renewables.
- The Company commenced a significant restructure of its Services business-line during Q1 FY22.

Capital raising and debt

During Q1, DUG undertook a successful placement of shares to new and existing sophisticated and institutional investors to raise an additional A\$15 million. Tranche 1 proceeds of A\$13.41 million were received during the quarter under review with Tranche 2 proceeds of A\$1.59 million received in October 2021. The Company’s Managing Director and other members of the Board have subscribed for A\$0.40 million of shares as part of the share placement, with shareholder approval granted at the Company’s 2021 Annual General Meeting which was held on 14 October 2021.

In addition, the Company invited all shareholders to participate in a share purchase plan on the same terms as the share placement. The SPP subsequently closed on 13 October 2021 with applications for A\$1.78 million of shares being received.

The capital raise was undertaken to provide funding for the Company’s key expansionary activities including Military and Space business development, renewable initiatives, expanding sales teams and purchasing computer equipment. In the short term it will also improve working capital and the ability to repay debt.

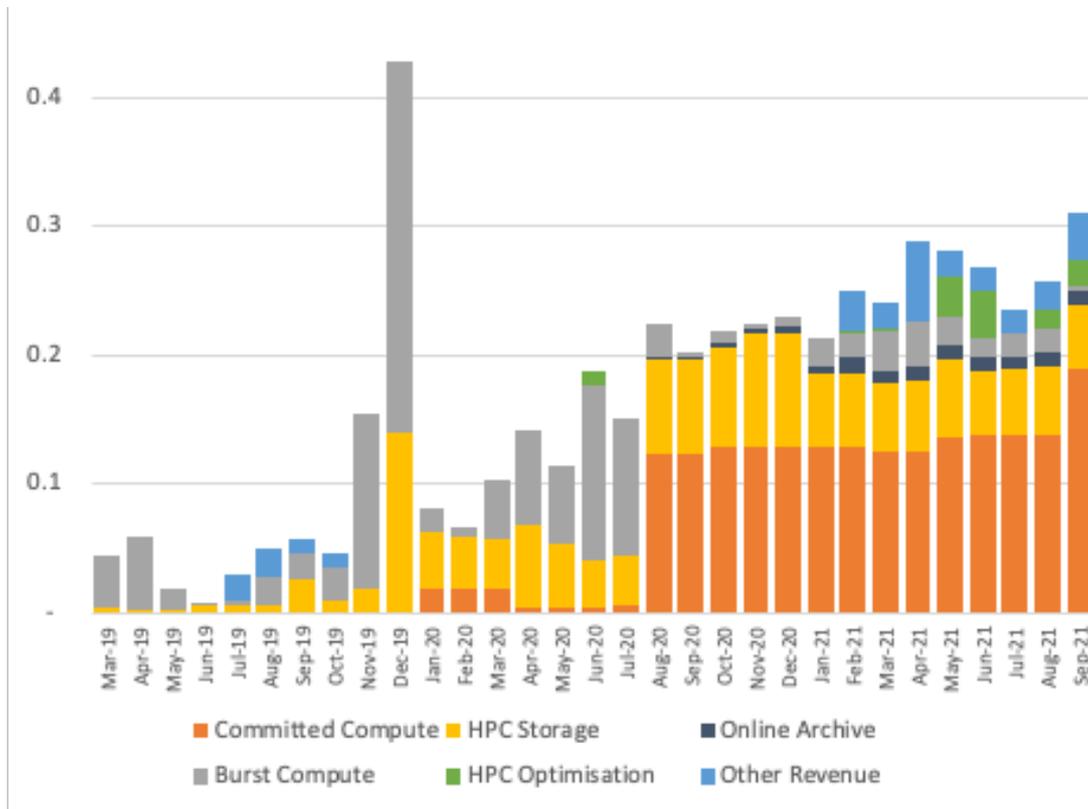
The repayment date of the Company’s term debt facility with CBA has been extended to 1 July 2022. During the quarter US\$5.25 million of debt was repaid with additional repayments of US\$1 million to be made before the debt maturity date.

Revenue

Total revenue earned from external customers was US\$8.69 million for Q1 FY22. Both the Company’s HPCaaS and Software business-lines performed in line with expectations whilst revenue earned in the Services business-line continued at levels experienced during the second half of the previous financial year. Strengthening oil prices have not yet translated into increased new contract awards.

HPCaaS revenues were pleasing during the quarter with the Company’s largest DUG McCloud client recording its highest level of compute hour usage during the month of September 2021. The graph below illustrates the growth trend in HPCaaS revenue including that component of revenue from committed compute hours:

Third Party HPCaaS Revenue (US\$ million)



The Company announced the signing of global shipbuilding company Austal Ltd as a DUG McCloud customer during the quarter. The contract includes burst compute and storage over a term of twelve months. Austal joins a growing list of new DUG McCloud signings over the last year, which includes Offshore Weather Services, Portable Spectral Services, Artrya, Biotome, Australian Catholic Universities, UWA School of Population and Global Health, HiSeis, RockWave, EIF Geosolutions, Axxis Geo Solutions and Optic Earth.

Operations and cash flow

Total cash utilised in operating activities was US\$2.10 million for Q1 FY22 – this includes interest payments on debt of US\$0.17 million and the interest component of lease payments of US\$0.25 million. Excluding interest, operating cash utilised was US\$1.68 million and reflects the impact on cash from the current lower level of Services revenue earned from the Oil & Gas sector.

During the quarter, management commenced a restructure of the Company's Services business-line. The objectives of the restructure are to reduce the level of fixed costs and to enhance the operational efficiency of this division. It will also ensure that the Services division is well positioned for any improvement in new business activity from the Oil & Gas sector over the remainder of the current financial year.

In July 2021, DUG signed an option to lease land in Geraldton Western Australia. The option gives DUG a 24-month window to execute the Lease, which would have an initial term of 15 years, and allow for two five-year extensions. Subject to all required approvals the lease would permit construction of a data centre campus with associated infrastructure, and energy production from solar, wind and hydrogen.

As part of its initiatives with respect to green-innovation investment and planned HPC campus in Geraldton, DUG has been developing low-cost, maintainable solutions for hydrogen electrolysis at megawatt scale and has filed standard provisional patent applications related to hydrogen energy storage systems. Such applications, which are likely to take four to five years to grant, will protect DUG from loss of possible patent rights by subsequent sale or publication of the inventions.

Investment expenditure for the quarter under review was US\$0.72 million. The major area of expenditure was to further expand HPC storage capacity in DUG's Houston data centre.

As at 30 September 2021, total cash held by the Company was US\$10.55 million.

Payments to related parties of the entity and their associates

The amount included in section 6.1 of the Appendix 4C comprises fees and salaries paid to directors of US\$190,172 and fees of US\$48,445 for consulting services paid to Comsen Solutions Pty Ltd, a company of which non-executive director Ms Louise Bower is a director.

Authorised for release by the Board of DUG Technology Ltd.

ENDS

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About DUG

DUG is an ASX listed technology company, headquartered in Australia, that specialises in analytical software development and reliable, green, high-performance computing (HPC). The company is built on a strong foundation of applied science and a history of converting research into practical, real-world solutions. DUG delivers innovative software products and cost-effective, cloud-based HPC as a service backed by bespoke support for technology onboarding. DUG's expertise in algorithm development and code optimisation enables clients to leverage big data and solve complex problems.

DUG is a global company with offices in Perth, London, Houston and Kuala Lumpur, supporting a diverse industrial client-base that includes radio-astronomy, biomedicine and meteorology, as well as the resource, government and education sectors. DUG designs, owns, and operates a network of some of the largest and greenest supercomputers on Earth. The company continues to invest and innovate at the forefront of software and HPC, working towards a climate-positive future.

To learn more, please visit www.dug.com.

Appendix 4C

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

Name of entity

DUG Technology Ltd

ABN

99 169 944 334

Quarter ended ("current quarter")30th September 2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8,566	8,566
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,475)	(1,475)
(c) advertising and marketing	(237)	(237)
(d) leased assets	-	-
(e) staff costs	(7,741)	(7,741)
(f) administration and corporate costs	(731)	(731)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(423)	(423)
1.6 Income taxes paid	(62)	(62)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,104)	(2,104)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(623)	(623)
(d) investments	-	-
(e) intellectual property	(95)	(95)
(f) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
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	(718)	(718)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	9,870	9,870
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	(499)	(499)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(5,250)	(5,250)
3.7 Transaction costs related to loans and borrowings	(100)	(100)
3.8 Dividends paid	-	-
3.9 Repayment of leases	(525)	(525)
3.10 Other	8	8
3.11 Net cash from / (used in) financing activities	3,504	3,504

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	10,015	10,015
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,104)	(2,104)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(718)	(718)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.11 above)	3,504	3,504
4.5	Effect of movement in exchange rates on cash held	(154)	(154)
4.6	Cash and cash equivalents at end of period	10,544	10,544

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	10,544	10,015
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)	10,544	10,015

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(239)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	19,555	13,185
7.2 Other (Premium Funding Loan)	327	327
7.3 Other (Bank Overdraft)	722	-
7.4 Total financing facilities	20,604	13,512
7.5 Unused financing facilities available at quarter end		7,092
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>Commonwealth Bank of Australia:</p> <ol style="list-style-type: none"> 1. USD Term Debt: US\$12,555,000 <ol style="list-style-type: none"> a. Interest rate: LIBOR rate plus 3.75% Margin b. Maturity date: 1 July 2022 c. Secured or Unsecured: Secured 2. Revolving Facility: US\$7,000,000 <ol style="list-style-type: none"> a. Interest rate: LIBOR rate plus 2.95% Margin b. Maturity date: 1 July 2022 c. Secured or Unsecured: Secured 3. Multi Option Facility (comprising of an Overdraft Sub-Facility and Bank Guarantee Sub-Facility): US\$722,000 <ol style="list-style-type: none"> a. Interest rate Overdraft Sub-Facility: Overdraft index rate as quoted on the Financier's "Business banking rates and fees" website b. Maturity date: 1 July 2022 c. Secured or Unsecured: Secured <p>IQumulate Premium Funding - \$327,000</p> <ol style="list-style-type: none"> a. Interest rate: 3.514% b. Maturity date: 30 June 2022 c. Secured or Unsecured: Secured 		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,104)
8.2 Cash and cash equivalents at quarter end (item 4.6)	10,544
8.3 Unused finance facilities available at quarter end (item 7.5)	7,092
8.4 Total available funding (item 8.2 + item 8.3)	17,636
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	8
<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:

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:

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:

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: 27 October 2021

The Board

Authorised by:
(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.