

ASX Release

31 January 2022



Q2 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 31 December 2021.

Highlights

- Total revenue from external customers during Q2 FY22 was US\$8.36 million.
- A reduction in net cash outflows from operating and investing activities of US\$1.57 million to US\$1.26 million for the quarter compared to Q1 FY22.
- During the quarter, the Company received proceeds of A\$1.59 million from the second tranche of its A\$15.0 million share placement undertaken during Q1 FY22. The Company also raised a further A\$1.78 million from existing shareholders who participated in a SPP on the same terms as the Placement, bringing total proceeds of the Capital Raise to A\$16.78 million.
- Total cash held at 31 December 2021 was US\$11.16 million (30 September 2021: US\$10.54 million).
- DUG has restructured its Services business line to reduce costs and enhance operational efficiency, resulting in improved overall operating margin for the business.

Capital raising and debt

DUG completed a successful placement of ordinary shares to new and existing sophisticated and institutional investors in Q1 FY22 to raise A\$15.0 million (“**Placement**”). A\$13.41 million of the Placement proceeds was received in Q1 FY22 with the balance (A\$1.59 million) received in October 2021. This included A\$0.40 million from the Company’s Managing Director and other members of the Board.

In addition, the Company provided all shareholders an opportunity to participate in a share purchase plan (“**SPP**”) on the same terms as the Placement. The SPP closed in October 2021 with applications for A\$1.78 million of shares being received.

The capital raising was undertaken to provide funding for the Company’s key expansionary activities including Military and Space business development, expanding sales teams and purchasing computer equipment, and to improve working capital and the ability to repay debt.

As previously reported, the repayment date of the Company’s term debt facility with CBA was extended to 1 July 2022 and US\$5.25 million of debt was repaid during H1 FY22 with an additional US\$1.0 million to be repaid during H2 FY22.

DUG has engaged external advisers to advise and assist the Company in relation to refinancing its debt facility and to review the Company’s overall capital structure to maximise its ambitious growth plans including its plans for a climate-positive HPC campus in Geraldton, Western Australia.

Restructure of Services business line

DUG has restructured its Services business line during Q2 FY22. The objectives of the restructure were to reduce the level of fixed costs, enhance operational efficiency and position the business to take advantage of improvements in new business activity in the oil and gas industry.

Geographical Services business units have been created from the Company's major service centres with each unit responsible for its own financial performance. This initiative includes profit-sharing incentives and salary deferment arrangements which commenced in December 2021 to assist with cash flow management. Key members of the Company's executive management team and board, including DUG's Managing Director and Chief Operating Officer, have also deferred a portion of their salary.

Given DUG focuses on continual improvements in software efficiency and functionality, the Company was able to reduce staff headcount and enhance workflow productivity. Total redundancy and restructure costs incurred by DUG during the half-year period to 31 December 2021 were US\$0.95 million and include the cost from staff reductions in the Services business line and from selective other staff reductions throughout the Company. The full financial benefit of these staff reductions will be realised during the second half of FY22.

The Company is also targeting projects that maximise profit in line with capacity. It has ceased third-party R&D projects and has conducted a review of the Company's required office space. Right-sizing of office space is expected to provide annualised savings of approximately US\$0.55 million to commence from the second half of the 2022 calendar year.

Business unit managers in the Services business line have welcomed the increased autonomy and are focussed on profitability improvement. DUG stands ready to apply additional cost savings measures in response to prevailing business conditions.

Revenue and expenditure

Total revenue earned from external customers was US\$8.36 million for Q2 FY22. The table below summarises the break-down of revenue across the Company's three business lines:

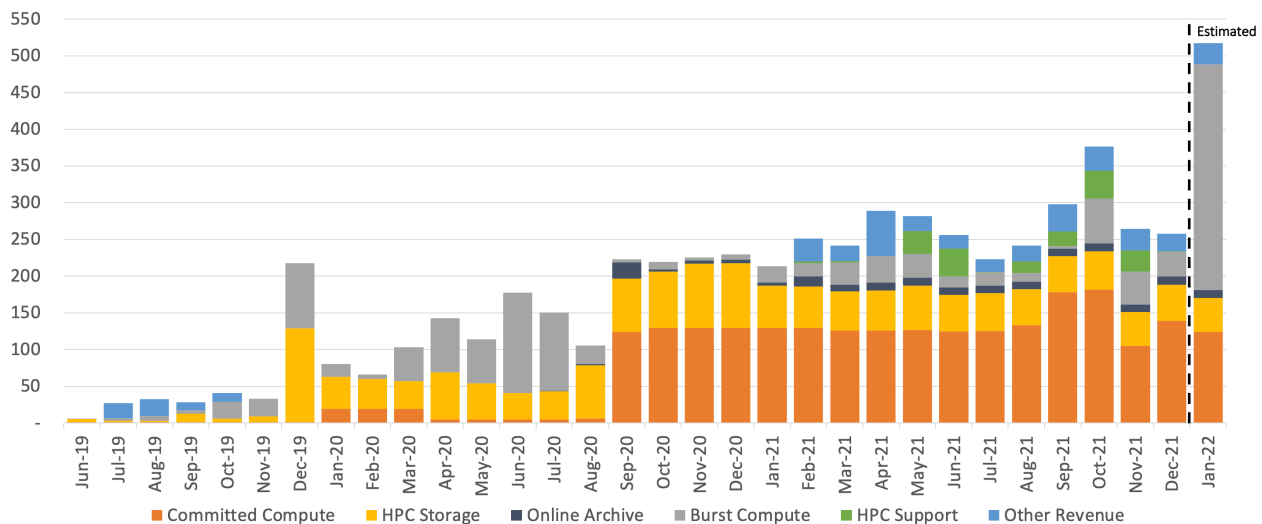
Business line	Q1 FY22 US\$ million	Q2 FY22 US\$ million	Variance Q1 to Q2	H1 FY22 US\$ million
Services	6.54	5.90	(10.0%)	12.44
Software	1.35	1.55	15.3%	2.90
HPCaaS	0.77	0.91	18.9%	1.68
	8.66	8.36	(3.5%)	17.02

DUG's Services business line was impacted throughout the Covid-19 pandemic, through a sharp decrease in commodity prices and a widespread reduction in oil and gas exploration activities. This continued in Q2 FY22 as the Services business line generated US\$5.90 million revenue, a decrease of 10% compared to Q1 FY22. However, the Company has seen a significant increase in new Service contract awards during the second half of December 2021 and this positive trend has continued in January 2022.

Following the Services restructure, DUG's Services business line is well positioned to take advantage of increased oil and gas activity and commodity prices in calendar year 2022.

Both the Company's HPCaaS and Software business lines performed well and recorded quarter on quarter increases in revenue during Q2 FY22 (19% and 15%, respectively). The graph below illustrates the growth trend in HPCaaS revenue, including the component of revenue from committed compute hours:

Third Party HPCaaS Revenue (US\$'000)



The strong performance of the HPCaaS business line during Q2 FY22 has continued into Q3 FY22 with record high levels of compute usage being recorded during January 2022– this results in a significant increase in projected revenue for January 2022 as shown above.

Excluding non-cash depreciation and amortisation, total operating expenditure during the quarter was US\$9.51 million. The largest component of operating expenditure is payroll and related expenditure, which for Q2 FY22 was US\$7.10 million. This included the impact of additional once-off expenditure incurred in relation to staff redundancies of US\$0.76 million. Excluding the impact of redundancy costs, total operating expenditure excluding depreciation and amortisation charges was US\$0.52 million lower than in Q1 FY22.

Operations and cash flow

Total cash utilised in operating activities was US\$1.10 million for Q2 FY22 – this includes interest payments on debt of US\$0.07 million and the interest component of lease payments of US\$0.22 million. Excluding interest, operating cash utilised was US\$0.81 million which represents a decrease US\$ 0.87 million as compared with Q1 FY22. Included within net operating cash flows are non-recurring redundancy payments made during the quarter of US\$0.76 million.

Cash receipts from external customers for the quarter under review were US\$8.49 million (Q1 FY22: US\$8.57 million).

DUG continues to carefully manage new capital expenditure with relatively low investment expenditure of US\$0.15 million during Q2 FY22 (Q1 FY22: US\$0.72 million). This is in line with the Company's traditional "just in time" approach to adding additional compute and storage capacity.

As at 31 December 2021, total cash held by the Company was US\$11.16 million, a net increase of US\$0.6 million compared to 30 September 2021.

The Company continues to advance the planning process for its climate-positive HPC campus in Geraldton, Western Australia. Having entered into an option to lease land during Q1 FY22, the Company has now received development application approval for the first data hall and associated infrastructure.

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\$175,210 and fees of US\$18,011 for consulting services paid to Comsen Solutions Pty Ltd, a company of which non-executive director Ms Louise Bower is a director.

This ASX Announcement has been approved for release by the Board of DUG Technology Ltd.

ENDS

For more information:

DUG Technology Ltd

T. +61 9287 4100

DUG Investor Email: investor@dug.com

DUG Investor Centre: www.dug.com/investor-centre

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")

31 December 2021

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities			
1.1 Receipts from customers		8,492	17,058
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		(924)	(2,399)
(c) advertising and marketing		(242)	(479)
(d) leased assets		-	-
(e) staff costs		(6,639)	(14,193)
(f) administration and corporate costs		(674)	(1,405)
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		-	-
1.5 Interest and other costs of finance paid		(292)	(715)
1.6 Income taxes paid		(65)	(127)
1.7 Government grants and tax incentives		-	-
1.8 Other (provide details if material)		-	-
Non recurring redundancy costs		(759)	(946)
1.9 Net cash from / (used in) operating activities		(1,103)	(3,206)
2. Cash flows from investing activities			
2.1 Payments to acquire or for:			
(a) entities		-	-
(b) businesses		-	-
(c) property, plant and equipment		(145)	(768)
(d) investments		-	-
(e) intellectual property		(8)	(103)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
	(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	(153)	(871)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,507	12,377
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	(181)	(680)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(5,250)
3.7	Transaction costs related to loans and borrowings	-	(100)
3.8	Dividends paid	-	-
3.9	Repayment of leases	(577)	(1,102)
3.10	Other	-	8
3.11	Net cash from / (used in) financing activities	1,749	5,253

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	10,544	10,015
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,103)	(3,206)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(153)	(871)
4.4	Net cash from / (used in) financing activities (item 3.11 above)	1,749	5,253
4.5	Effect of movement in exchange rates on cash held	123	(31)
4.6	Cash and cash equivalents at end of period	11,160	11,160

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	11,160	10,544
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)	11,160	10,544

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	(193)
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.</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 \$US’000	Amount drawn at quarter end \$US’000
7.1	Loan facilities	19,555	13,302
7.2	Other (Premium Funding Loan)	205	205
7.3	Other (Bank Overdraft)	726	-
7.4	Total financing facilities	20,486	13,507
7.5	Unused financing facilities available at quarter end		6,979
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.		
Commonwealth Bank of Australia:			
1. USD Term Debt: US\$12,555,000			
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			
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\$726,000			
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			
IQumulate Premium Funding - \$205,000			
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)	(1,103)
8.2 Cash and cash equivalents at quarter end (item 4.6)	11,160
8.3 Unused finance facilities available at quarter end (item 7.5)	6,979
8.4 Total available funding (item 8.2 + item 8.3)	18,139
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	16
<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: 31 January 2022

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.