DUG Technology Ltd
Appendix 4D
Half-year report

Reporting period

Current period: Half-year ended 31 December 2021
Previous corresponding period: Half-year ended 31 December 2020

Results for Announcement to the Market

	31 December 2021	31 December 2020	Change Up/(Down)	
	US$	US$	US$	%
Revenue from ordinary activities	17,016,108	22,026,186	(5,010,078)	(22.7%)
Other income	2,345,413	1,388,917	956,496	68.9%
Loss after tax from ordinary activities	(5,834,380)	(5,981,654)	147,274	2.5%
Loss after tax attributable to members	(5,852,779)	(6,166,156)	313,377	5.1%

The table below shows the improvement in the Company's EBITDA and underlying EBITDA against the result from the second half of FY21 – further commentary on the Company's result, including movements against the previous half and the prior corresponding period, are included in the review of operations section in the accompanying Directors' Report.

	H1 FY22	H2 FY21	H1 FY21	Change H1 FY22 & H2 FY21	Change H1 FY22 & H1 FY21
	US$	US$	US$	US$	%
EBITDA[1]	55,784	(3,583,536)	1,853,366	101.6%	(97.0%)
Underlying EBITDA[1, 2]	(49,686)	(1,774,095)	3,274,529	97.2%	(101.5%)

1 These items are categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 - Disclosing non-IFRS financial information.

2 Underlying EBITDA is EBITDA excluding non-recurring items. For the half-year ended 31 December 2021, the gain on lease remeasurement and redundancy costs incurred have been excluded in deriving underlying EBITDA. The prior half-year periods include adjustments for redundancy payments, bad debt write-offs, the legal fees and settlement costs in respect of a patent dispute and additional leave provisions in non-Australian offices required due to changes in local regulations as part of COVID-19 relief packages.

Dividends and Dividend Reinvestment Plans

No dividend has been proposed or declared in respect of half-years ended 31 December 2021 and 31 December 2020 and there were no dividend reinvestment plans in operation during the current period.

Control Gained/Lost Over Entities

No control over any entities was gained or lost during the half-year ended 31 December 2021.

Net Tangible Assets per Share

	31 December 2021 US$	31 December 2020 US$
Net tangible assets per share	0.14	0.21

Audit Review

This report is based on the interim consolidated financial statements for the half-year ended 31 December 2021 which have been reviewed by Ernst & Young. The auditor's review report contains a matter of emphasis paragraph, the basis for which is further discussed in note 2 contained in the accompanying interim consolidated financial report.

Other

Additional information supporting the Appendix 4D disclosure requirements and a comparison of performance against previous periods, can be found in the accompanying Directors' Report and the interim consolidated financial statements for the half-year ended 31 December 2021.

CONSOLIDATED INTERIM FINANCIAL REPORT

for the half-year ended 31 December 2021
expressed in US dollars unless
otherwise stated

Contents

Company Information

DIRECTORS	Wayne Martin Matthew Lamont Louise Bower Mark Puzey Francesco Sciarrone	Non-Executive Chairman Managing Director Non-Executive Director Non-Executive Director Non-Executive Director
COMPANY SECRETARY	Jacqueline Barry	
COUNTRY OF INCORPORATION	Australia	
COMPANY REGISTRATION NUMBER	169 944 334	
LEGAL FORM	Limited Company	
REGISTERED OFFICE	76 Kings Park Road West Perth WA 6005 AUSTRALIA	
PRINCIPAL PLACE OF BUSINESS	76 Kings Park Road West Perth WA 6005 AUSTRALIA	
AUDITORS	EY Australia EY Building 11 Mounts Bay Road Perth WA 6000 AUSTRALIA	
SHARE REGISTRY	Computershare Investor Services Level 11, 172 St Georges Terrace Perth WA 6000 AUSTRALIA	
ASX LISTING	ASX CODE: DUG	

Directors' Report

The Directors hereby present their report of the Group comprising of DUG Technology Ltd (**DUG**, or **the Company**), and its subsidiaries (together referred to as **the Group**) for the half-year ended 31 December 2021. The use of the words Company and Group are interchangeable for the purposes of this report.

DIRECTORS

The Directors of the Company at any time during or since the end of the half-year ended 31 December 2021 are set out below. Directors were in office for the entire period unless otherwise stated.

- Wayne Martin — Chairman and Non-Executive Director
- Matthew Lamont — Managing Director
- Louise Bower — Non-Executive Director
- Michael Malone — Non-Executive Director (resigned 6th August 2021)
- Mark Puzey — Non-Executive Director
- Francesco Sciarrone — Non-Executive Director

PRINCIPAL ACTIVITIES

DUG is an ASX listed technology company, headquartered in Australia with offices in Perth, London, Houston and Kuala Lumpur, 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 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.

REVIEW OF OPERATIONS

This review sets out the operating results of the Company for the half-year periods ended 31 December 2021 (**H1 FY22**), 30 June 2021 (**H2 FY21**) and 31 December 2020 (**H1 FY21**). Certain comparative amounts for the half-year ended 31 December 2020 have been restated as more fully described in Note 5 to the financial statements.

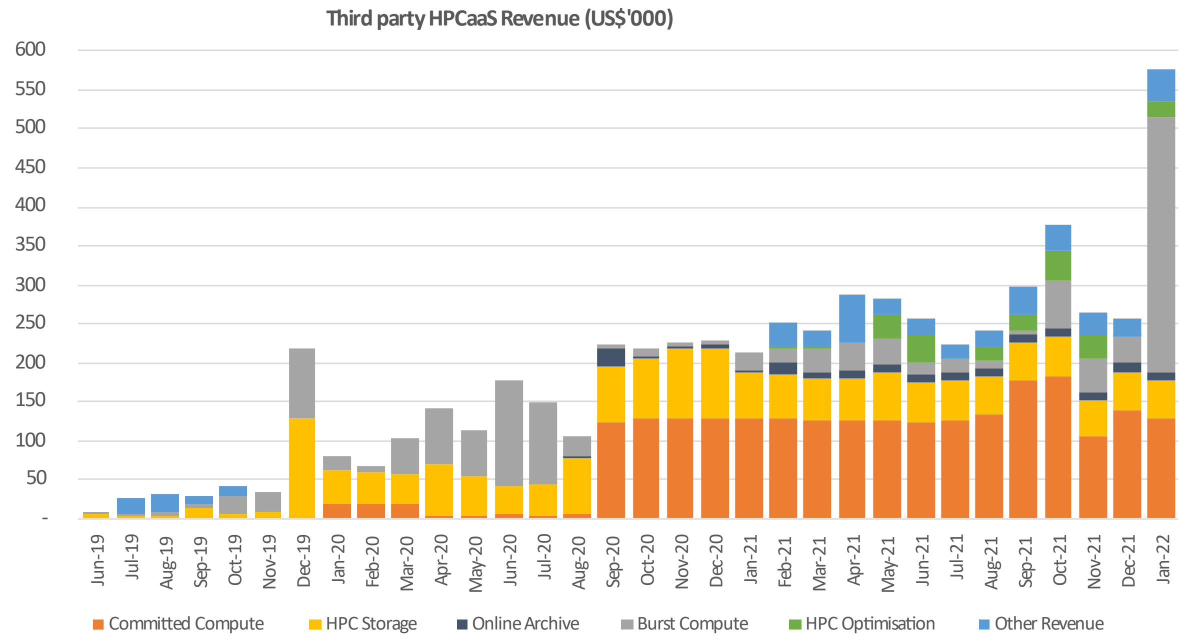
Revenue

The split of external revenue between DUG's 3 business lines is shown in the table below.

	H1 FY22 US$	H2 FY21 US$	H1 FY21 US$	Change H1 FY22 & H2 FY21 %	Change H1 FY22 & H1 FY21 %
Services	12,434,805	12,374,393	18,228,596	0.5%	(31.8%)
Software	2,899,972	2,521,118	2,643,753	15.0%	9.7%
HPCaaS	1,681,331	1,528,714	1,153,837	10.0%	45.7%
	17,016,108	**16,424,225**	**22,026,186**	**3.6%**	**(22.7%)**

Total revenue earned for H1 FY22 has increased by 3.6% as compared with H2 FY21. This increase in revenue has been driven by a strong performance from DUG's Software and HPCaaS business lines during the half-year, which have recorded revenue growth of 15% and 10% respectively. These business lines also recorded high levels of growth in revenue over H1 FY21 with 9.7% growth in Software and 45.7% growth in HPCaaS.

The HPCaaS business line in particular has continued this trend into the second half of FY22 with record high levels of compute usage being recorded during January 2022– this has resulted in a significant increase in revenue for January 2022. The graph overpage illustrates the growth trend in HPCaaS revenue:



DUG's Services business line has been impacted throughout the Covid-19 pandemic, through a sharp decrease in commodity prices and a widespread reduction in oil and gas exploration activities, evidenced by a decreased level of new Service contract awards. Revenue has stabilised with H1 FY22 revenue largely flat as compared with H2 FY21, but approximately 32% below the corresponding half year ended 31 December 20. During the second half of December 2021 and in the period after the end of H1 FY22, the Company has seen a significant increase in new Services contract awards.

Restructure of Services business line

DUG has successfully restructured its Services business line during H1 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 H1 FY22 were US$946,000 and include the cost from staff reductions in the Services business line and from selective other staff reductions throughout the Company. The total headcount of the Services business line was reduced by 37 as a result of the restructure.

The restructure is delivering the desired operational efficiencies and cost reductions, with the full financial benefit from staff reductions to be realised during the second half of FY22.

The Company is also targeting projects that maximise profit in line with capacity and has ceased third-party R&D projects.

Office requirements have also been reviewed, and the Company exercised its right to terminate the lease over its office premises in London in July 2022, being 5 years after lease commencement, in order to right-size the office space and reduce the ongoing fixed accommodation costs associated with this location. DUG is currently reviewing alternative replacement office options but expects annualised savings of in excess of US$500,000 to commence from the second half of the 2022 calendar year.

The Company had previously determined the amount recognised for the London office right of use asset and lease liability based on a lease term of 10 years. In accordance with AASB 16, this change has been treated as a lease modification and the Company has remeasured the right of use asset and lease liability taking into account the remaining lease term to July 2022. As a result, a net gain on remeasurement of US$1,051,179 is included in other income in H1 FY22.

Operating expenses

The table below shows the composition of total operating expenses by half-year - Operating expenses have decreased by 8.9% as compared with H2 FY21 and by 8.8% on H1 FY21.

	H1 FY22 US$	H2 FY21 US$	H1 FY21 US$	Change H1 FY22 & H2 FY21 %	Change H1 FY22 & H1 FY21 %
Depreciation and amortisation	3,724,572	3,731,711	3,684,551	(0.2%)	1.1%
Employee benefits	14,102,617	15,192,758	15,641,242	(7.2%)	(9.8%)
Other expenses	5,203,120	6,351,033	5,920,495	(18.1%)	(12.1%)
	23,030,309	**25,275,502**	**25,246,288**	**(8.9%)**	**(8.8%)**

The Group's largest operating expense comprises employee benefits – total employee benefit expenses in H1 FY22 decreased by 7.2% as compared with H2 FY21 and by 9.8% as compared with H1 FY21. Excluding the impact of non-recurring redundancy costs noted above, the decrease in total employee benefits between H2 FY21 and H1 FY22 is 9.6% and reflects the decrease in total staff numbers.

Other operating expenses have also decreased as compared to the previous two half-year periods. During FY21 additional costs relating to settling a legal matter and higher credit loss provisioning than had historically been experienced by the Group were incurred.

The Group continues to invest in developing its leading-edge technology and software solutions. High frequency full-waveform inversion (**HF-FWI**) research delivered significant advances during H1 FY22 and a large marketing push is underway to procure projects. DUG's HF-FWI capabilities provide a strong competitive advantage and supports growth across the Group's three business lines.

Underlying EBITDA

	H1 FY22 US$	H2 FY21 US$	H1 FY21 US$	Change H1 FY22 & H2 FY21 %	Change H1 FY22 & H1 FY21 %
EBITDA[1]	55,784	(3,583,536)	1,853,366	101.6%	(97.0%)
Underlying EBITDA[1, 2]	(49,686)	(1,774,095)	3,274,529	97.2%	(101.5%)

1 These items are categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 - Disclosing non-IFRS financial information.
2 Underlying EBITDA is EBITDA excluding non-recurring items. For the half-year ended 31 December 2021, the gain on lease remeasurement and redundancy costs incurred have been excluded in deriving underlying EBITDA. The prior half-year periods include adjustments for redundancy payments, bad debt write-offs, the legal fees and settlement costs in respect of a patent dispute and additional leave provisions in non-Australian offices required due to changes in local regulations as part of COVID-19 relief packages.

The increase in revenue combined with cost savings achieved have led to a significant improvement in EBITDA and underlying EBITDA during H1 FY22 - underlying EBITDA has increased by US$1,724,409 as compared with H2 FY21.

The underlying EBITDA margin of the Services business line in H1 FY22 has improved by approximately 22% from H2 FY21 and reflects the positive impact of cost reductions and a decline in compute usage following the implementation of the restructure. (Compute is acquired from the HPCaaS business line.) This has in turn contributed to a softening in the underlying EBITDA margin of the HPCaaS business line to 31% (H2 FY22: 37%). However, lower internal utilisation provides capacity to support high margin 3rd party HPCaaS revenue growth and the anticipated demand from the HF-FWI marketing campaign.

The underlying EBITDA margin of the Software business line for H1 FY22 of 29% (H2 FY21: 43%) reflects the impact of investment costs of approximately US$500,000 in relation to the HF-FWI campaign.

Net Finance expenses

Net finance expense for H1 FY22 has decreased by 14.6% as compared with H2 FY21 – this reflects the average lower balance outstanding on the Group's loans following repayments made of US$5,250,000 during H1 FY22. H1 FY21 net finance expenses included costs of DUG's convertible note program and expenses relating to the Company's IPO, and were thus significantly higher than in H1 FY22.

Cashflow

Net cash outflows for H1 FY22 were US$2,491,251 – net operating outflows trended lower in the second quarter of FY22 as the positive impact from the restructure and from other savings initiatives were realised. DUG has carefully managed new capital expenditure in H1 FY22 with relatively low investment expenditure of US$870,930. This is in line with the Company's traditional "just in time" approach to adding additional compute and storage capacity.

Net cash inflows from financing activities of US$4,537,533 for H1 FY22 include the proceeds from a successful share placement and share purchase plan undertaken during H1 FY22, and the loan repayments made of US$5,250,000.

The Company's cash position at 31 December 2021 improved by US$1,143,889 as compared with the position at 30 June 2021.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Dated at Perth on 22 February 2022.

Signed in accordance with a resolution of the Directors.

Mark Puzey
DIRECTOR

Ernst & Young
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Perth WA 6000 Australia
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Auditor's independence declaration to the directors of DUG Technology Limited

As lead auditor for the review of the half-year financial report of DUG Technology Limited for the half-year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of DUG Technology Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
22 February 2022

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2021

	Note	31 Dec 2021 US$	31 Dec 2020 Restated (Note 5) US$
Income			
Revenue from contracts with customers	7	17,016,108	22,026,186
Other income	8	2,345,413	1,388,917
		19,361,521	**23,415,103**
Expenses			
Depreciation and amortisation		(3,724,572)	(3,684,551)
Employee benefits	9	(14,102,617)	(15,641,242)
Other expenses	10	(5,203,120)	(5,920,495)
Operating Loss		**(3,668,788)**	**(1,831,185)**
Finance income		410	-
Finance expense	11	(854,116)	(2,751,891)
Net finance expense		**(853,706)**	**(2,751,891)**
Loss before tax		**(4,522,494)**	**(4,583,076)**
Tax expense		(1,311,886)	(1,397,578)
Loss for the period		**(5,834,380)**	**(5,980,654)**
Attributable to:			
Equity holders of the parent		(5,852,779)	(6,166,156)
Non-controlling interest		18,399	185,502
Total Comprehensive Loss		**(5,834,380)**	**(5,980,654)**
Loss per share			
Basic and diluted loss per share (cents per share)		(5.33)	(6.61)

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying Notes to the Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2021

	Note	31 Dec 2021 US$	30 June 2021 US$
ASSETS			
Current assets			
Cash and cash equivalents		11,159,621	10,015,732
Trade and other receivables		6,342,717	5,856,040
Prepayments		619,826	593,430
Contract assets		689,049	842,721
Income tax receivable		451,473	341,744
Other current assets		520,787	38,192
Total current assets		**19,783,473**	**17,687,859**
Non-current assets			
Property, plant and equipment	12	21,250,250	23,073,941
Right of use assets	13	11,146,937	14,028,564
Intangible assets		502,376	454,987
Other assets		250,652	712,965
Total non-current assets		**33,150,215**	**38,270,457**
Total assets		**52,933,688**	**55,958,316**
LIABILITIES			
Current liabilities			
Trade and other payables		2,475,411	2,204,087
Loans and borrowings	14	12,698,750	17,764,583
Contract liabilities		3,276,118	2,704,241
Lease liabilities	15	1,962,565	2,171,162
Provisions	16	3,223,903	3,652,663
Total current liabilities		**23,636,747**	**28,496,736**
Non-current liabilities			
Lease liabilities	15	11,675,691	15,759,322
Provisions	16	160,687	186,100
Total non-current liabilities		**11,836,378**	**15,945,422**
Total liabilities		**35,473,125**	**44,442,158**
NET ASSETS		**17,460,563**	**11,516,158**
EQUITY			
Share capital	17	50,377,373	38,671,855
Reserves		(496,235)	(569,501)
Accumulated loss		(32,420,575)	(26,586,196)
TOTAL EQUITY		**17,460,563**	**11,516,158**
Equity attributable to equity holders of parent		17,352,953	11,426,947
Non-controlling interest		107,610	89,211
TOTAL EQUITY		**17,460,563**	**11,516,158**

The Condensed Consolidated Statement of Financial Position is to be read in conjunction with the accompanying Notes to the Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2021

	Note	Share Capital US$	Translation Reserve US$	Share-based Payment reserve US$	Accumulated Losses US$	Total US$	Non-controlling Interests US$	Total Equity US$
Balance at 1 July 2021		**38,671,855**	**(2,177,269)**	**1,607,768**	**(26,675,408)**	**11,426,947**	**89,211**	**11,516,158**
Loss for the period		-	-	-	(5,852,779)	(5,852,779)	18,399	(5,834,380)
Total comprehensive loss for the period		**-**	**-**	**-**	**(5,852,779)**	**(5,852,779)**	**18,399**	**(5,834,380)**
TRANSACTIONS WITH EQUITY HOLDERS								
Share based payments		-	-	73,267	-	73,267	-	73,267
Receipts from loan funded share plan		8,638	-	-	-	8,638	-	8,638
Shares issued during the period (net of costs)		11,696,880	-	-	-	11,696,880	-	11,696,880
Total transactions with equity holders		**11,705,518**	**-**	**73,267**	**-**	**11,778,785**	**-**	**11,778,785**
Balance at 31 December 2021		**50,377,373**	**(2,177,269)**	**1,681,035**	**(32,528,186)**	**17,352,953**	**107,610**	**17,460,563**
Balance at 1 July 2020		**4,644,673**	**(2,177,269)**	**1,601,437**	**(10,693,650)**	**(6,624,809)**	**(32,168)**	**(6,656,977)**
Loss for the period		-	-	-	(6,166,156)	(6,166,156)	185,502	(5,980,654)
Total comprehensive loss for the period		**-**	**-**	**-**	**(6,166,156)**	**(6,166,156)**	**185,502**	**(5, 980,654)**
TRANSACTIONS WITH EQUITY HOLDERS								
Share based payments		-	-	13,326	-	13,326	-	13,326
Receipts from loan funded share plan		354,335	-	-	-	354,335	-	354,335
Share issued during the period (net of costs)		33,672,811	-	-	-	33,672,811	-	33,672,811
Total transactions with equity holders		**34,027,146**	**-**	**13,326**	**-**	**34,040,472**	**-**	**34,040,472**
Restated balance at 31 December 2020		**38,671,819**	**(2,177,269)**	**1,614,763**	**(16,859,806)**	**21,249,507**	**153,334**	**21,402,841**

The Condensed Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying Notes to the Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Cashflows

For the half-year ended 31 December 2021

	Note	31 Dec 2021 US$	31 Dec 2020 US$
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		17,058,324	20,029,711
Cash paid to suppliers		(4,283,268)	(4,287,111)
Cash paid to employees		(15,139,337)	(16,236,754)
Income Tax paid		(127,380)	(243,139)
Interest received		410	-
Receipt of Government Grants		-	28,428
Net cash flows used in operating activities		**(2,491,251)**	**(708,865)**
CASHFLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(768,587)	(5,543,667)
Acquisition of intangible assets		(102,905)	(30,304)
Proceeds from disposal of property, plant and equipment		562	208,000
Net cash used in investing activities		**(870,930)**	**(5,365,971)**
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		12,376,942	18,509,400
Receipts from loan funded share plan		8,638	354,335
Transaction costs relating to capital raising		(680,062)	(1,422,834)
Repayment of borrowings		(5,250,000)	(6,099,621)
Transaction costs relating to borrowings		(98,362)	-
Payment of principal portion of lease liabilities		(1,104,548)	(1,121,954)
Interest paid - Lease liabilities		(478,226)	(540,736)
Interest paid - Convertible notes		-	(541,752)
Interest paid - Borrowings		(236,849)	(372,536)
Net cash flows from financing activities		**4,537,533**	**8,764,300**
Net increase in cash and cash equivalents		**1,175,352**	**2,689,464**
Cash and cash equivalents at the beginning of the year		10,015,732	12,032,545
Effect of changes in foreign currency		(31,463)	2,596
Cash and cash equivalents at the end of the year		**11,159,621**	**14,724,605**

The Condensed Consolidated Statement of Cashflows is to be read in conjunction with the accompanying Notes to the Condensed Consolidated Financial Statements.

Notes to the Condensed Consolidated Financial Statements

For the half-year ended 31 December 2021

1. REPORTING ENTITY

The interim condensed consolidated financial statements of DUG Technology Ltd as at and for the half-year ended 31 December 2021 comprise of DUG Technology Ltd (**the Company**) and its subsidiaries (together referred to as **the Group**) and were authorised for issue on 22 February 2022 in accordance with a resolution of the directors. The Group is comprised of for-profit entities. DUG Technology Ltd is a limited company incorporated and domiciled in Australia and whose shares are publicly traded.

The principal activities of the Group are the provision of high-performance computing as a service (HPCaaS), scientific data analysis and the provision of software. Additional information on the Group's principal activities is provided in Note 6.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statement for the half-year ended 31 December 2021 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The half-year financial report does not include all of the information required for a full financial report, and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2021, and any public announcements made by the Group during the half-year ended 31 December 2021 in accordance with continuous disclosure obligations under the *Corporations Act 2001* and ASX Listing Rules.

Going concern

The interim condensed consolidated financial statements have been prepared on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the half-year ended 31 December 2021, the Group incurred a net loss after tax of US$5,834,380 (2020: US$5,980,654) and experienced net cash outflows from operating activities of US$2,491,251 (2020: net outflow of US$708,865).

At 31 December 2021, the Group had net current liabilities of US$3,853,274 (30 June 2021: US$10,808,877) and held cash and cash equivalents of US$11,159,621 (30 June 2021: US$10,015,732). The net current liability is primarily attributed to a loan of US$12,502,688 with the Commonwealth Bank of Australia (CBA) which is due for repayment on 1 July 2022.

The Directors have prepared the financial statements on the going concern basis as they are satisfied that the Group will be able to raise the additional funding required to meet the Group's obligations as, and when, they fall due. This determination is based upon the Group having recently demonstrated its ability to successfully raise capital from multiple sources.

The Company has engaged external advisors to advise and assist in relation to refinancing its debt facility and to review its overall capital structure. A number of different options such as debt or equity financing or a combination of both are currently under consideration and the directors are confident that an appropriate financing solution can be implemented in advance of the repayment date of the current debt facility.

In the event that the Group is unable to raise additional capital, material uncertainty would exist that may cast doubt on the ability of the Consolidated Entity to continue as a going concern.

These condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group be unable to continue as a going concern.

3. FUNCTIONAL AND PRESENTATION CURRENCY

All entities within the Group have a United States dollars (US$) functional currency. The interim condensed consolidated financial statements are presented in US$, which is the parent entity's and subsidiaries' functional and presentation currency.

4. NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2021, except for the adoption of new standards effective as of 1 July 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

5. ADJUSTMENTS TO COMPARATIVE PERIOD

In its annual financial statements for the year ended 30 June 2021, the Group disclosed a number of matters which resulted in adjustments to prior year amounts. Certain of these matters also impact upon the result for the half-year ended 31 December 2020.

The impact on previously reported amounts in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2020 is summarised in the table below. In this table, 'adjustments' refer to restatements with profit or loss impact while 'reclassifications' relate to those with no profit or loss impact. The increase in the reported net loss for the half-year ended 31 December 2020 is mainly driven by the reassessment and subsequent derecognition of deferred tax assets on the balance sheet as outlined in Note 5.6 and a decrease in revenue arising from timing differences related to the reassessment of revenue recognition under AASB15 as outlined in Note 5.1.

	Note	31 Dec 2020 As Reported US$	31 Dec 2020 Adjustments US$	31 Dec 2020 Reclassification US$	31 Dec 2020 Restated US$
Income					
Revenue from contracts with customers	5.1	24,184,638	(769,535)	(1,388,917)	22,026,186
Other income	5.1	-	-	1,388,917	1,388,917
		24,184,638	**(769,535)**	**-**	**23,415,103**
Expenses					
Depreciation and amortisation	5.2	(3,741,800)	57,249	-	(3,684,551)
Employee benefits	5.3	(15,899,277)	258,035	-	(15,641,242)
Other expenses	5.4, 5.5	(5,829,240)	(65,522)	(25,733)	(5,920,495)
Operating Loss		**(1,285,679)**	**(519,773)**	**(25,733)**	**(1,831,185)**
Finance income	5.5	14,395	(14,395)	-	-
Finance expense	5.2	(2,617,266)	(134,625)	-	(2,751,891)
Net finance expense		**(2,602,871)**	**(149,020)**	**-**	**(2,751,891)**
Loss before tax		**(3,888,550)**	**(668,793)**	**(25,733)**	**(4,583,076)**
Tax expense	5.6	(552,230)	(871,081)	25,733	(1,397,578)
Loss for the period		**(4,440,780)**	**(1,539,874)**	**-**	**(5,980,654)**
Basic and diluted loss per share (cents per share)		**(4.75)**	**(1.86)**	**-**	**(6.61)**

The adjustments made are more fully described below:

5.1 A reassessment of the facts and circumstances associated with the adoption of AASB 15: *Revenue from Contracts with Customers* (**AASB 15**) has led to the following changes in revenue recognition and disclosure:

- In the prior corresponding period, software revenue was recognised on a 'right to use' basis where revenue was recorded at the point in time when a software licence was transferred to a customer. At 30 June 2021, the Group reassessed its performance obligations associated with its software contracts other than node locked software licenses and considered it more appropriate that revenue be recognised over the term of the software contract as it was concluded that the licence creates a 'right of access'. The impact on revenue recognised for the half-year ended 31 December 2020 was a decrease of US$649,910;
- In the prior corresponding period, the Group identified for certain HPCaaS revenue contracts that revenue is required to be deferred to subsequent periods to align with the transfer of the service to the customer in accordance with AASB 15. The impact on revenue recognised for the half-year ended 31 December 2020 was a decrease of US$119,625; and
- In the prior corresponding period, the Group classified R&D concessions and other government grants of US$1,388,917 as revenue in its Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income. As this receipt does not meet the requirements of revenue from contracts with customers, the Group considered it more appropriate to classify such items as other income in accordance with AASB 120: *Accounting for Government Grants and Disclosure of Government Assistance*.

5.2 As required by AASB16: *Leases* (**AASB 16**), the Group recognised right of use assets and lease liabilities in the year ended 30 June 2020, adopting the modified retrospective method.

In determining the amount recognised for right of use assets and lease liabilities on transition to AASB 16, the Group applied certain assumptions with reference to underlying lease terms included in its lease contracts. As at 30 June 2021, the Group completed a reassessment of the lease term associated with one of its infrastructure facilities taking into consideration contractual lease extension options, which indicated that the lease extension options should have been included in the transition to AASB 16 on 1 July 2019. The impact of this change for the half-year ended 31 December 2020 was a decrease of US$57,249 in depreciation and an increase in finance expense of $134,626.

5.3 At 30 June 2021, the Group reviewed its obligations to employees in overseas jurisdictions, reassessing its annual leave liability where employees are entitled to varying levels of paid annual leave in each calendar year (defined as 1 January to 31 December). Such entitlements have been further impacted by changes to government regulations in each respective jurisdiction associated with COVID-19. Accordingly, the Group has calculated its annual leave liability for overseas jurisdictions resulting in a decrease to the employee benefits expense of US$258,035 for the half-year ended 31 December 2020.

5.4 At 30 June 2021, the Group reviewed its key assumptions regarding costs to complete service contracts including estimation of time to completion, labour costs and compute costs, and determined that a provision for onerous contracts should have been raised at 30 June 2020 and 31 December 2020. The impact of the net movement in this provision for the half-year ended 31 December 2020 was a decrease of US$17,025 in other expenses.

5.5 On 30 June 2012, the Group provided an unsecured loan to a senior executive amounting to A$870,000 to enable the senior executive to acquire 2,400,000 fully paid ordinary shares in the Company. A reassessment of this arrangement concluded that the arrangement is a limited recourse loan and meets the definition of a share-based payment under *AASB 2: Share Based Payment*. Accordingly, the loan (including accrued interest) that was previously disclosed as a component of other assets was derecognised at 1 July 2019, with a corresponding amount adjusted against equity at 1 July 2019. The impact of this adjustment for the half-year ended 31 December 2020 was an increase of US$82,547 in other expenses and a decrease of US$14,395 in finance income.

5.6 The Group has reassessed the recoverability of deferred tax assets at 30 June 2020 and 31 December 2020 using the best information available at those dates, including prevailing economic conditions and the impact of COVID-19. As a result of the uncertainty around the utilisation timeframe associated with such deferred tax assets, no deferred tax assets should have been recognised at these dates. The impact for the half-year ended 31 December 2020 is an increase in the income tax expense of US$ 871,081. Whilst such deferred tax assets are no longer recognised, they remain available to the Group to be used against future taxable income.

Withholding tax of US$25,733 that was previously disclosed as a component of the Group tax expense has been reclassified and included within other expenses to be consistent with the disclosure adopted in the current half-year period.

6. SEGMENT INFORMATION

For management purposes, the Group is organised into business segments based on its products and services and has three reportable segments as follows:

- The HPCaaS segment, allows clients to connect to the Group's HPC and storage in a complete HPC environment. The Group's supercomputers, located in four global locations, provide substantial compute and storage capabilities. DUG also provides software and algorithm support and development to enable a client to successfully operate on DUG's HPC.
- The Services segment, provides clients with two types of services:
  - Data loading, quality control and management, and
  - Scientific data analysis.
- The Software segment, has two main products:
  - DUG Insight - A modern, intuitive and interactive software package for scientific processing and visualisation, and
  - DUG Cluster Software – high end algorithms for the processing of scientific data on large HPC installations.

DUG McCloud is a collaborative cloud platform that enables clients to mix and match the three product offerings with their own codes and expertise, to suit their needs and desired outcomes.

The Group monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the condensed consolidated financial statements. The Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above reportable segments.

The Services segment is a significant user of compute and is charged by the HPCaaS segment for their use. This results in inter-segment revenue reported in the HPCaaS segment with the corresponding costs recorded in other expenses in the Services segment. These inter-segment values eliminate on consolidation.

During the period under review, the Company has changed the basis for allocating internal R&D costs. Previously, both a portion of the R&D grant and the associated costs were allocated from the Software segment to the Services segment. As from November 2021, and as part of the restructure of the Services business line, this has been replaced with a user-based software charge. This results in inter-segment revenue reported in the Software segment with the corresponding costs recorded in other expenses in the Services segment.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

31 December 2021	HPCaaS US$	Services US$	Software US$	Eliminations US$	Consolidated US$
Income					
Revenue from contracts with external customers	1,681,331	12,434,805	2,899,972	-	17,016,108
Inter-segment	7,567,455	-	316,800	(7,884,255)	-
Other Income	611,124	1,137,089	597,200	-	2,345,413
	9,859,910	**13,571,894**	**3,813,972**	**(7,884,255)**	**19,361,521**
Expenses					
Employee benefits	3,840,334	8,908,601	1,553,539	(199,857)	14,102,617
IT facilities, related costs & consultants	1,794,112	150,841	116,092	(19,177)	2,041,868
Other expenses	1,060,331	8,770,404	995,738	(7,665,221)	3,161,252
	6,694,776	**17,829,845**	**2,665,369**	**(7,884,255)**	**19,305,737**
Segment EBITDA [1]	**3,165,134**	**(4,257,951)**	**1,148,603**	**-**	**55,784**
EBITDA % [1]	***32%***	***(31%)***	***30%***	**-**	***1%***
Depreciation & amortisation	2,910,033	665,591	148,948	-	3,724,572
Segment EBIT	**255,102**	**(4,923,543)**	**999,655**	**-**	**(3,668,788)**
Segment assets	**29,401,252**	**9,720,777**	**2,200,564**	**-**	**41,322,593**
Segment liabilities	**1,737,830**	**4,363,652**	**3,034,637**	**-**	**9,136,119**

1. These items are categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 - Disclosing non-IFRS financial information.

31 December 2020	HPCaaS US$	Services US$	Software US$	Eliminations US$	Consolidated US$
Income					
Revenue from contracts with external customers	1,153,837	18,228,596	2,643,753	-	22,026,186
Inter-segment	8,514,403	12,567	-	(8,526,970)	-
Other income	228,982	903,658	256,277	-	1,388,917
	9,897,222	**19,144,821**	**2,900,030**	**(8,526,970)**	**23,415,103**
Expenses					
Employee benefits	3,588,686	11,271,691	1,017,663	(236,798)	15,641,242
IT facilities, related costs & consultants	1,653,186	674,761	(27,656)	680	2,300,971
Other expenses	1,170,540	10,225,720	514,114	(8,290,852)	3,619,522
	6,412,412	**22,172,172**	**1,504,121**	**(8,526,970)**	**21,561,735**
Segment EBITDA [1]	**3,484,810**	**(3,027,351)**	**1,395,909**	**-**	**1,853,368**
EBITDA % [1]	***36%***	***(16%)***	***48%***	**-**	***8%***
Depreciation & amortisation	2,861,142	687,096	136,315	-	3,684,553
Segment EBIT	**623,668**	**(3,714,447)**	**1,259,594**	**-**	**(1,831,185)**
Segment assets	**34,703,392**	**14,642,860**	**3,036,043**	**-**	**52,385,295**
Segment liabilities	**1,6,96,473**	**3,473,193**	**3,362,421**	**-**	**8,532,087**

1. These items are categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 - Disclosing non-IFRS financial information.

	31 Dec 2021 US$	31 Dec 2020 US$
Reconciliation of loss before tax		
Segment EBIT	(3,668,788)	(1,831,185)
Finance expense	(854,116)	(2,751,891)
Finance income	410	-
Loss before tax	**(4,522,494)**	**(4,583,076)**

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

	31 Dec 2021 US$	31 Dec 2020 Restated US$
Services	12,434,805	18,228,596
Software	2,899,972	2,643,753
HPCaaS	1,681,331	1,153,837
Revenue from contracts with customers	**17,016,108**	**22,026,186**
Timing of revenue recognition		
Over time[1]	16,685,166	21,698,915
At a point in time[2]	330,942	327,271
Revenue from contracts with customers	**17,016,108**	**22,026,186**

1 Relating to the sale of software licenses other than node-locked licences, services and HPCaaS.
2 Relating to revenue from node-locked software licences.

Geographic information	31 Dec 2021 US$	31 Dec 2020 Restated US$
Australia	5,132,057	6,769,247
United Kingdom	4,884,991	5,474,692
United States of America	4,840,956	5,919,887
Malaysia	2,158,104	3,862,360
Revenue from contracts with customers	**17,016,108**	**22,026,186**

8. OTHER INCOME

	31 Dec 2021 US$	31 Dec 2020 Restated US$
Government grant - non-cash R&D tax concession	1,294,234	1,360,489
Government grant - other	-	28,428
Gain on remeasurement of lease[1]	1,051,179	-
	2,345,413	**1,388,917**

1 The gain relates to the remeasurement of the London office lease, refer Note 13.

9. EMPLOYEE BENEFITS

	31 Dec 2021 US$	31 Dec 2020 Restated US$
Salaries and fees	10,660,243	12,018,538
Superannuation	977,226	1,014,779
Payroll tax	732,925	807,998
Other benefits	1,658,956	1,786,601
Share based payments	73,267	13,326
	14,102,617	**15,641,242**

10. OTHER EXPENSES

	31 Dec 2021 US$	31 Dec 2020 Restated US$
Sales and marketing	448,033	214,713
Office facilities	609,454	579,758
Consultants	483,946	738,092
Loss/(Profit) on disposal of property, plant and equipment	23,435	(36)
Realised and unrealised foreign exchange (gain)/loss – net	(62,786)	494,383
IT facilities and related costs	1,894,546	1,863,074
Professional fees	562,820	572,719
Other	1,243,672	1,457,792
	5,203,120	**5,920,495**

11. FINANCE EXPENSE

	31 Dec 2021 US$	31 Dec 2020 Restated US$
Interest expense - borrowings	288,690	372,536
Debt arrangement fees	87,200	47,480
Interest expenses – lease liabilities	478,226	540,736
Convertible note expenses	-	1,338,813
IPO and capital raising fees	-	452,326
	854,116	**2,751,891**

12. PROPERTY, PLANT AND EQUIPMENT

	Data Centre Infrastructure and HPC US$	Leasehold Improvements US$	Office Equipment US$	Under Construction US$	Total US$
At 30 June 2021					
Cost	59,082,382	4,655,534	1,658,052	428,662	65,824,630
Accumulated depreciation	(38,429,180)	(2,698,247)	(1,623,262)	-	(42,750,689)
Net book value	**20,653,202**	**1,957,287**	**34,790**	**428,662**	**23,073,941**
Half-year ended 31 December 2021					
Opening net book value	20,653,202	1,957,287	34,790	428,662	23,073,941
Additions	593,203	-	-	175,383	768,586
Reclassification	40,797	-	-	(40,797)	-
Disposals	(23,997)	-	-	(6,793)	(30,790)
Depreciation	(2,091,191)	(455,752)	(14,544)	-	(2,561,487)
Closing net book value	**19,172,014**	**1,501,535**	**20,246**	**556,455**	**21,250,250**
At 31 December 2021					
Cost	59,625,841	4,655,534	1,658,052	556,455	66,495,882
Accumulated depreciation	(40,453,827)	(3,153,999)	(1,637,806)	-	(45,245,632)
Net book value	**19,172,014**	**1,501,535**	**20,246**	**556,455**	**21,250,250**

13. RIGHT OF USE ASSETS

During the half-year ended 31 December 2021, the Company exercised it is right to terminate the lease over it is office premises in London in July 2022, being 5 years after lease commencement, in order to right-size the office space and reduce the ongoing fixed accommodation costs associated with this office location. DUG is currently reviewing alternative replacement office accommodation options.

The Company had previously determined the amount recognised for the London office right of use asset and lease liability based on it its lease term of 10 years. In accordance with AASB 16, this change has been treated as a lease modification and, the Company has remeasured the right of use asset and lease liability taking into account the remaining lease term to July 2022. As a result, a net gain on remeasurement of US$1,051,179 is included in other income (*refer to Note 8*).

	Offices US$	Data Centre US$	Global Fibre Links US$	Total US$
At 30 June 2021				
Cost	11,733,587	8,318,985	1,441,038	21,493,610
Accumulated depreciation	(6,249,903)	(891,320)	(323,823)	(7,465,046)
Net book value	**5,483,684**	**7,427,665**	**1,117,215**	**14,028,564**
Half-year ended 31 December 2021				
Opening net book value	5,483,684	7,427,665	1,117,215	14,028,564
Additions	30,166	-	-	30,166
Remeasurement of lease	(1,975,630)	-	(486)	(1,976,116)
Provision for make good	171,892	-	-	171,892
Depreciation	(747,753)	(198,072)	(161,744)	(1,107,569)
Closing net book value	**2,962,359**	**7,229,593**	**954,985**	**11,146,937**
At 31 December 2021				
Cost	7,970,184	8,318,985	1,440,551	17,729,720
Accumulated depreciation	(5,007,825)	(1,089,392)	(485,566)	(6,582,783)
Net book value	**2,962,359**	**7,229,593**	**954,985**	**11,146,937**

14. LOANS AND BORROWINGS

	Bank Facilities US$	Other US$	Total US$
31 December 2021			
Carrying value - current	12,502,688	196,062	12,698,750
30 June 2021			
Carrying value- current	17,764,583	-	17,764,583

Bank facilities

As at 31 December 2021, the Group has the following bank facilities in place:

- Revolving facility of US$7,000,000 (30 June 2021: US$7,000,000). The facilities are comprised of three sub facilities covering growth capex, working capital and a bank guarantee facility. At 31 December 2021, bank guarantees issued on behalf of the Group entities totalled US$755,441. Interest is calculated as LIBOR plus a margin.

- A multi-option facility of A$1,000,000 (30 June 2021: A$1,000,000) comprised of two sub facilities that can be utilised for either an overdraft or bank guarantees. The balance of the overdraft facility at 31 December 2021 was $nil (30 June 2021: $nil); and
- A term debt facility of US$12,555,000 (30 June 2021: US$17,805,000) of which US$12,546,236 was drawn down at 31 December 2021 (30 June 2021: US$17,796,236). Attributable to this facility is unamortised borrowing costs at 31 December 2021 of US$43,548 (30 June 2021: US$31,652).

The Group is required to make repayments during the second half of the year ending 30 June 2022 of US$1,000,000 with the balance payable on 1 July 2022 (refer to note 2 for refinancing considerations).

The Group has provided the following security in relation to the bank facilities:

- A first ranking general security to Commonwealth Bank of Australia (CBA) over all present and future rights, property and undertakings.
- General security deed and working capital guarantee recourse deed with Export Finance Insurance Corporation in Australia to partially guarantee facilities provided by CBA.
- There is a fixed charge on all freehold, leasehold, book debts and other assets of the Group, in respect of a bank loan drawdown. The bank also has a floating charge over all the assets of the Group.

For the half-year ended 31 December 2021, the Group did not achieve the forecast EBITDA required as part of the CBA Term Debt Facility Amendment dated 30 August 2021. CBA has informed the Company that it will waive this occurrence but retains its rights in relation to any future occurrence.

The weighted average effective interest rate on the bank facilities is 3.92% per annum (30 June 2021: 3.91%).

Other

This consists of insurance premium funding provided by IQumulate Premium Funding Pty Ltd and is shown net of deferred finance charges (30 June 2021: US$nil).

15. LEASE LIABILITIES

	31 Dec 2021 US$	30 June 2021 US$
Carrying value	**13,638,256**	**17,930,484**
Current	1,962,565	2,171,162
Non-current	11,675,691	15,759,322
	13,638,256	**17,930,484**

As set out in note 13, the lease term of the Company's London office premises has been modified resulting in the remeasurement of the right of use lease asset and lease liability during the half-year ended 31 December 2021. The movement in the carrying value of lease liabilities during the period is as follows:

	US$
Opening balance as at 1 July 2021	17,930,484
Additions	30,144
Repayments	(1,104,548)
Remeasurement	(3,026,809)
Net foreign exchange differences	(191,015)
Closing balance as at 31 December 2021	**13,638,256**

16. PROVISIONS

	31 Dec 2021 US$	30 June 2021 US$
Current		
Provision for annual leave	1,945,136	2,364,875
Provision for long service leave	774,724	874,280
Provision for deferred salary	94,452	-
Provision for make good	171,892	-
Provision for onerous contracts	237,699	413,508
	3,223,903	**3,652,663**
Non-current		
Provision for long service leave	160,687	186,100
	160,687	**186,100**

17. SHARE CAPITAL

Share capital comprises ordinary shares.

	31 Dec 2021		31 Dec 2020	
	No.	US$	No.	US$
Balance at beginning of period	99,473,544	38,671,855	62,781,886	4,644,673
Issued and fully paid shares	18,649,843	12,376,942	19,259,259	18,509,400
Issued on conversion of convertible notes	-	-	16,888,889	16,272,360
Issued Loan funded shares	-	-	168,510	-
Issued Performance shares	-	-	375,000	-
Receipts from loan funded share plan	-	8,638	-	354,335
Equity raising costs	-	(680,062)	-	(1,108,949)
Balance at end of period	**118,123,387**	**50,377,373**	**99,473,544**	**38,671,819**

During the half-year ended 31 December 2021, the Company issued 18,649,843 fully paid shares at A$0.90 per share as follows:

- The Company undertook a placement of shares to new and existing sophisticated and institutional investors raising A$15,000,000 (US$11,050,971) of share capital through the issue of 16,666,667 shares; and
- The Company raised A$1,784,585.40 (US$1,325,971) through the issue of 1,983,176 shares under a Share Purchase Plan (SPP) open to all shareholders in Australia and New Zealand. Under the SPP, all eligible shareholders on the share register as of 6 September 2021 and with a registered address in Australia and New Zealand, had the opportunity to subscribe for up to A$30,000 worth of new shares at a price of A$0.90 per share.

18. IMPAIRMENT OF NON-CURRENT ASSETS

The Group's main cash generating units (**CGUs**) are:

- HPCaaS;
- Software; and
- Services

The carrying values of CGUs are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate an impairment trigger and that the carrying value may be impaired. The recoverable amount of a CGU is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At 31 December 2021 an impairment trigger for the HPCaaS and Services CGUs was identified being the losses incurred for the last two financial years to 30 June 2021 and the half-year to 31 December 2021.

The recoverable amount of these CGUs was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on the financial budget approved by the Board and extrapolated using the estimated growth rates covering a five-year period and a terminal growth rate thereafter. These growth rates are a combination of historical data and forecasts specific to the CGU.

As a result of this analysis, the Group did not identify any impairment for these CGUs (2021: nil).

Key assumptions used in value in use calculations

The values assigned to the key assumptions represent management's assessment of future trends in the relevant CGUs and have been based on historical data from both external and internal sources. The key assumptions used in the estimation of the recoverable amounts are set out below.

- A post-tax real discount rate of 12.5% has been used which represents the Group's real weighted average cost of capital.
- Combined revenue growth rates have been determined based on past performance and management's expectation of future growth. The combined annual revenue growth over the forecast period for the HPCaaS CGU and the Services CGU is approximately 5% and 7% respectively based on the actual result for the first half of FY22.
- A zero long term growth rate has been applied to take account of the fact that that current capacity will be approaching full utilisation by the end of the forecast period.
- A combined average annual growth rate of approximately 2.3% and 4% has been applied for growth in total cash costs for the HPCaaS and Services CGU respectively over the forecast period after adjusting for the impact of the restructuring in the first half of FY22.
- The resultant EBITDA margin over the forecast period for the Services CGU increases during the forecast period to levels similar to those achieved in FY20. The EBITDA margin for the HPCaas CGU also increases reflecting the full utilisation of the Group's existing compute capacity.
- Capital expenditure to maintain current capacity has been estimated based on historical spending and excludes expansionary capital expenditure.
- Working capital requirements of both CGU's have been determined based on historical requirements adjusted for revenue growth assumptions.

Sensitivity to changes in assumptions

The impairment assessment is sensitive to movements in key assumptions including the discount rate applied, the revenue growth rate, the EBITDA margin and the level of maintenance capital assumed. Management has performed sensitivity analysis for these variables to determine if reasonably possible changes in the assumptions would cause the carrying amount of the above CGUs to exceed their recoverable amount.

In relation to the Services CGU, the following results:

- If the discount rate increased by 2% with other assumptions held constant, no impairment results.
- If the annual revenue growth rate decreased by 1% with other assumptions held constant, there would be an impairment loss of US$337,000.
- If the average EBITDA margin decreased by 1% with other assumptions held constant, no impairment results.

In relation to the HPCaaS CGU, the CGU would break even at a discount rate of approximately 13.7% or if the annual maintenance capital expenditure in the terminal value calculation were to increase by 14%.

19. RELATED PARTY TRANSACTIONS

During the half-year ended 31 December 2021, US$72,003 (31 December 2020: US$nil) was paid to Comsen Solutions Pty Ltd, a company of which Ms Bower is a director, in respect of consulting services provided to the Group.

20. CONTINGENT LIABILITIES AND COMMITMENTS

a) Commitments

At 31 December 2021, the Group had no capital commitments (30 June 2021: US$nil).

b) Contingency

There has been no change in the status of contingent liabilities as disclosed in the consolidated financial report for the year ended 30 June 2021.

21. SUBSEQUENT EVENTS

There have been no significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Directors' Declaration

In accordance with a resolution of the directors of DUG Technology Ltd, we state that in the opinion of the directors:

(a) the interim financial statements and notes of the Company and its subsidiaries (collectively the Group) for the half-year ended 31 December 2021 are in accordance with the *Corporations Act 2001*, including:

  i. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
  ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) Subject to the achievement of matters described in Note 2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth on 22 February 2022.

Signed in accordance with a resolution of the Directors.

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Mark Puzey
DIRECTOR

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Independent auditor's review report to the members of DUG Technology Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of DUG Technology Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2021, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising 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 the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 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* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group 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 2 in the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibilities for the half-year financial report

The directors of the Company 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 Group's financial position as at 31 December 2021 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.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
22 February 2022

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V L Hoang
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22 February 2022