

ASX Release

29 July 2022



Q4 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 June 2022.

The financial information included in this release is unaudited, DUG’s audited Annual Report is expected to be released to the market on 31 August 2022.

Highlights

- The Company won US\$11.9 million in new Services projects during the quarter, a 34% increase on a strong quarter Q3 FY22
- Total revenue from external customers during Q4 FY22 was US\$8.43 million bringing FY22 revenue to US\$33.66 million)
- Underlying EBITDA for Q4 FY22 of US\$1.51 million, with FY22 Underlying EBITDA of US\$2.79 million
- Operating cash inflows for 2H22 were US\$1.47 million with a cash outflow in Q4 FY22 of US\$0.79 million, (FY22: outflow of US\$1.73 million). Net investing cash outflows for Q4 FY22 of US\$0.33 million, (FY22: US\$1.50 million)
- Financing cash outflow for Q4 FY22 of \$8.04 million was driven by repayments to CBA of US\$7.55 million.
- Total cash held at 30 June 2022 was US\$2.66 million with net debt (excluding AASB 16 leases) at 30 June 2022 of US\$1.84 million.

Operational update

DUG won US\$11.9 million of new services projects during the quarter, lifting from an already strong third quarter of contract wins (US\$8.9 million). Delays receiving data from some of the Q3 FY22 wins resulted in a softer revenue in Q4 FY22, however together with awards in this quarter, the Services business line is well positioned for the commencement of FY2023.

The Company presented its new Multi-parameter FWI imaging at the European Association of Geoscientists and Engineers (EAGE) conference in June 2022 with significant interest shown by many clients including industry majors. Following the conference, DUG agreed to run a series of trials with several of its customers to showcase the technology following highly successful internal trials. DUG has now won several commercial Multi-parameter FWI imaging projects.

The Software and HPCaaS business lines continue to perform well with revenue growth outside of the oil and gas customers in HPCaaS.

Commenting on DUG’s recent operational performance, Managing Director Dr Matthew Lamont said “Significant project awards in our Services Business Line during the quarter, further illustrates the significant oil & gas industry rebound, setting DUG up really well for the new financial year. The momentum is building around our Multi-parameter FWI imaging with all trials completed showing great results together with rapid turnaround times; this really has the potential to transform the seismic processing and imaging market.”

Financing extension

As announced on 30 June 2022, DUG extended its financing facilities with CBA to 1 July 2024. In completing this extension an additional principle repayment of US\$7 million was made on the term loan facility bringing this to US\$4.5 million at 30 June 2022.

This concluded a long process of negotiations with the bank and alternative parties with a positive outcome reached. Importantly, DUG now has the flexibility to source third party asset financing to support its just in time compute requirements needed for growth.

Revenue and expenditure

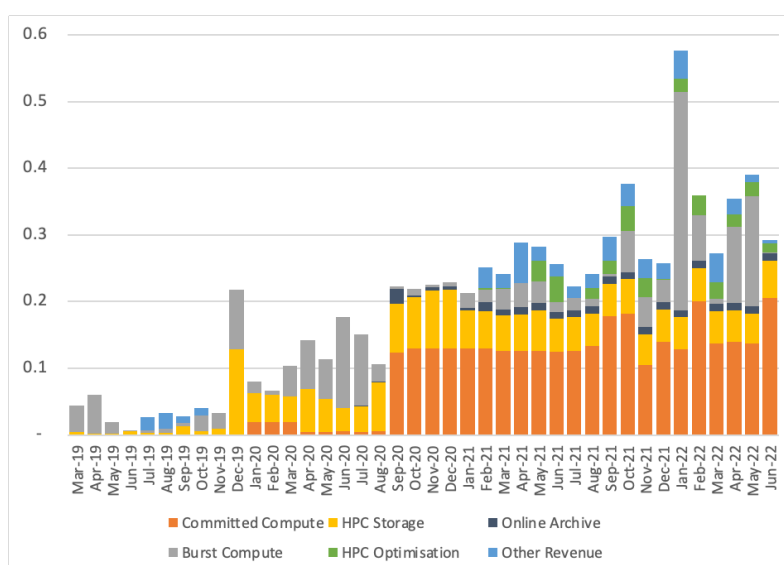
Total revenue earned from external customers was US\$8.43 million for Q4 FY22. The table below summarises the break-down of revenue across the Company's three business lines:

Business line	Q3 FY22 (US\$ million)	Q4 FY22 (US\$ million)	Variance Q3 to Q4 (%)	YTD FY22 (US\$ million)
Services	5.60	5.64	0.5%	23.7
Software	1.41	1.75	24.1%	6.1
HPCaaS	1.21	1.04	(14.0%)	3.9
Total	8.22	8.43	2.6%	33.7

The Services business line performed well in the quarter, however revenues were lower than hoped due to some delays in starting a number of the projects won in Q3 FY22. These projects have all now commenced, and together with strong wins in Q4 FY22, well position this business line into FY2023.

DUG's software business line revenue improved in Q4 FY22 with strong sales recorded particularly in June 2022. The HPCaaS business line performed well, growing in committed use revenue during the quarter, total revenue softened during the quarter following peak usage from one client in January 2022 on a single project. The below graph illustrates the trend in HPCaaS revenue:

Third Party HPCaaS Revenue (US\$'000)



Underlying EBITDA for Q4 FY22 was US\$1.51 million. Excluding redundancy costs and non-cash depreciation and amortisation, total operating expenditure during the quarter was US\$7.75 million (Q3 FY22: US\$7.56 million). The largest component of operating expenditure is payroll and related expenditure, which for Q4 FY22 was US\$5.55 million (Q3 FY22: US\$5.74 million). This excluded the impact of additional once-off expenditure incurred in relation to staff redundancies of US\$0.08 million (Q3 FY22: US\$0.09 million).

Cash flow

Cash used in operating activities was US\$0.79 million for Q4 FY22 (FY22 YTD: outflow of US\$1.73 million) – this includes interest payments of US\$0.33 million (FY22 YTD: US\$1.3 million). Included within net operating cash flows are non-recurring redundancy payments made during the quarter of US\$0.08 million (FY22 YTD: US\$1.09 million).

DUG experienced timing differences in its cash flow from operations with some debtors deferring payment until early July 2022 and the repayment of previously deferred salary payments to certain staff members during the quarter, together with the cessation of furlough arrangements following strong contract wins in Q3 FY22.

The Group's cash flows from operations for the second half of FY2022 were positive at US\$1.47 million.

Capital expenditure of US\$0.33 million during Q4 FY22 (FY22 YTD: US\$1.5 million) is in line with the Company's traditional "just in time" approach to adding additional compute and storage capacity.

Loan repayments amounting to US\$7.55 million were made to CBA during the quarter, including a repayment of US\$7.0 million made at the end of June 2022 to facilitate the extension of facilities.

At 30 June 2022, total cash held by the Company was US\$2.66 million, a net decrease of US\$9.12 million compared to 31 March 2022.

This ASX Announcement has been approved 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")

30 June 2022

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	7,843	34,669
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(834)	(4,333)
	(c) advertising and marketing	(455)	(1,055)
	(d) leased assets	-	-
	(e) staff costs	(6,342)	(26,009)
	(f) administration and corporate costs	(535)	(2,526)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(325)	(1,308)
1.6	Income taxes received/(paid)	(64)	(82)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
	Non recurring redundancy costs	(76)	(1,089)
1.9	Net cash from / (used in) operating activities	(788)	(1,733)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(300)	(1,320)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
	(d) investments	-	-
	(e) intellectual property	(48)	(196)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	16	17
	(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	(332)	(1,499)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	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	-	(680)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(7,546)	(13,296)
3.7	Transaction costs related to loans and borrowings	(14)	(181)
3.8	Dividends paid	-	-
3.9	Repayment of leases	(480)	(2,168)
3.10	Other	-	12
3.11	Net cash from / (used in) financing activities	(8,040)	(3,936)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	11,778	10,016
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(788)	(1,733)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(332)	(1,499)
4.4	Net cash from / (used in) financing activities (item 3.11 above)	(8,040)	(3,936)
4.5	Effect of movement in exchange rates on cash held	38	(192)
4.6	Cash and cash equivalents at end of period	2,656	2,656

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	2,656	2,656
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)	2,656	2,656

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	(179)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<p><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></p> <p>Amounts included in 6.1 are remuneration payments made to Non-Executive Directors and consulting fees of US\$6,837 paid to Comsen Solutions Pty Limited, a company of which Ms Bower is a Director.</p>		

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 – Term Debt	4,500	4,500
7.2	Loan facilities – Credit standby arrangements	1,000	688
7.3a	Other (Premium Funding Loan)	-	-
7.3b	Other (Bank Overdraft)	689	-
7.4	Total financing facilities	6,189	5,188
7.5	Unused financing facilities available at quarter end		1,001
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>Commonwealth Bank of Australia:</p> <ol style="list-style-type: none"> 1. USD Term Debt: US\$4,500,000 <ol style="list-style-type: none"> a. Interest rate: SOFR rate plus 4.25% margin. b. Maturity date: 1 July 2024 c. Secured or Unsecured: Secured 2. Contingent Instrument Facility: US\$1,000,000, drawn down to \$US688,000 <ol style="list-style-type: none"> a. Interest rate: Line fee of 1.00% plus utilisation fee of 2.95% on amounts drawn. b. Maturity date: Subject to annual review c. Secured or Unsecured: Secured 3. Overdraft Facility: A\$1,000,000 (US\$689,000 as at 30 June 2022 spot rate) <ol style="list-style-type: none"> a. Interest rate: Line fee of 1.50% plus Overdraft Index Rate as quoted on CBA's website b. Maturity date: Subject to annual review 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)	(788)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,656
8.3	Unused finance facilities available at quarter end (item 7.5)	1,001
8.4	Total available funding (item 8.2 + item 8.3)	3,657
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.6
	<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>	

8.6 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:

N/A

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:

N/A

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:

N/A

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: 29 July 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.