

# CONTINUED GROWTH TOWARDS CLOUD MICROSERVICES

MARCH 2023 (Q3 FY23) ACTIVITIES AND CASHFLOW REPORT

## Highlights:

- Continued growth in cash receipts, up by ~40% compared to Q3 FY22.
- Strong reduction in operating expenses, down by ~44% compared to Q3 FY22.
- Strong acceleration of the Company's "Next Phase of Growth" (ASX: 31 October 2022), with:
  - Completion of the Attained acquisition. (ASX:4 April 2023)
  - Progression of the disposal of non-core assets for \$3m in cash. (ASX: 27 February 2023)
- Dynamic progression of the Company's operations within the cloud microservices sector.
- Company continues to assess strong opportunities for growth in critical technology sectors for the second half of fiscal 2023.

**27 April 2023:** DC Two Limited (ASX: DC2) ("DC Two" or the "Company"), a vertically integrated revenue generating data centre, cloud, and software business, is pleased to provide its quarterly report and Appendix 4C cash flow statement for the period ended 31 March 2023.

## Quarter Overview:

During the third quarter of fiscal 2023, the Company has continued to focus on the transition to its next phase of growth (ASX: 31 October 2022). Management has implemented critical strategic initiatives aimed at building a unique technology offering into the broader cloud microservices IT sector.

In particular, the Company continued the strategic review of its operations and existing core assets, to enable an effective transition to its next phase of growth via its stated four-step strategy (ASX: 2 May 2022, 31 October 2022, and 14 December 2022):



This overarching strategy has delivered a strong quarter, with:

- Cash receipts growing by ~40% compared to Q3 FY22.
- Operating expenses down by ~44% compared to Q3FY22.
- Total revenue for the quarter was ~\$1.1 million, up by ~21% compared to Q3 FY22.

**M&A Overview:****Attained:**

Following the quarter end, the Company announced the successful completion of its acquisition of Attained Group Pty Ltd (“Attained”) and its expansion beyond data centres and infrastructure. (ASX: 4 April 2023)

Attained is a profitable Australian leading managed IT and cloud services provider, deploying and managing technology solutions across a variety of enterprises to improve performance and efficiency. The acquisition is expected to accelerate the Company’s strategic move into the broader cloud microservices IT sector, leveraging the IT infrastructure foundations built over the last three years.

The acquisition of Attained is deemed an initial, strategic steppingstone for the Company, covering several technology layers, deemed critical to build an end-to-end market offering. These include, among others:

- Cyber Security.
- Managed IT services.
- Cloud services.
- Network and Voice solutions.

During the last three years, Attained has demonstrated its ability to generate profit while achieving an average of ~\$3 million in unaudited revenue. Via this transaction, the Company expects to drive further growth by leveraging its IT infrastructure foundations built over the last three years.

**Disposal of non-core assets for \$3M in cash:**

On 27 February 2023, the Company announced the proposed divestment of the DC Modular business assets to D Comm Infrastructure Pty Ltd, a subsidiary of D Comm Ventures Pty Ltd, a leading Web 3.0 technology company, to generate \$3 million in cash (before costs).

The DC Modular business assets have been identified as non-strategic towards the Company’s tech-focussed growth objectives. The completion of this transaction is subject to conditions precedent.

The Company expects to settle this transaction by the end of the fiscal year.

**Outlook:**

Aligned with its transition to the next phase of growth (ASX: 31 October 2022), the Company will continue to assess several M&A growth opportunities aimed at building a unique technology offering, within the cloud microservices sector.

The Company intends to focus on critical technologies and services towards this goal, including a continuous assessment on non-critical divisions.

**Financial Summary:**

The attached Appendix 4C provides details on the cashflows for the quarter ended 31 March 2023. As at 31 March 2023 the Company along with its wholly-owned subsidiary had a cash balance of \$855k.

The Company's net cash used in operating activities for the quarter amounted to \$213k and included expenditure on product manufacturing and operating costs (\$737k), advertising and marketing (\$92k), staff costs (\$403k), and administration & corporate costs including leased asset expenditure (\$325k).

The acquisition of Attained achieved completion on 31 March 2023, and is subject to standard post-completion adjustments relating to working capital and net debt. As at the completion date Attained had a cash balance of ~\$207k which is included in the closing cash balance of \$855k above. Apart from the acquisition of Attained, in accordance with ASX Listing Rule 4.7C.1, there has been no material changes in the Company's activities.

In accordance with ASX Listing Rule 4.7C.3, payments in the December quarter to related parties of approximately \$22k included at Item 6 in the attached Appendix 4C comprised salaries and fees paid to executive and non-executive directors and their associated entities.

This announcement has been approved for release by the Board of DC Two.

For more information please contact:

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**ABOUT DC TWO**

Established in 2012, DC Two offers a suite of vertically integrated services covering every part of the data centre and cloud technology stack. The Company offers a number of managed and integrated cloud services delivered from datacentres in Perth and Darwin. DC Two also develops software assets to support our internal operations and provide enhanced control and flexibility, through automation and self-service, to our customers and technology partners, wherever they are.

**FORWARD-LOOKING STATEMENTS**

Statements contained in this release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices, or potential growth of DC Two Limited, are, or may be, forward-looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward-looking statements depending on various factors.

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

**Name of entity**

DC Two Limited

**ABN**

30 155 473 304

**Quarter ended ("current quarter")**

31 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,344	3,843
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(737)	(2,660)
(c) advertising and marketing	(92)	(135)
(d) leased assets	(154)	(382)
(e) staff costs	(403)	(1,170)
(f) administration and corporate costs	(153)	(295)
(g) crypto mining expenditure <sup>1</sup>	1 -	1 -
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other – Once-off acquisition costs <sup>2</sup>	(18) <sup>2</sup>	<sup>2</sup> (64)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(213)</b>	<b>(863)</b>

<sup>1</sup> No receipts or expenditure incurred on crypto mining activities in this quarter

<sup>2</sup> This relates to legal, due diligence and independent expert report fees incurred for the acquisition of Attained Group Pty Ltd (Attained). These costs will not be incurred on an on-going basis.

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment <sup>3</sup>	<sup>3</sup> (16)	<sup>3</sup> (291)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
<b>2.2</b> Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
<b>2.3</b> Cash flows from loans to other entities	-	-
<b>2.4</b> Dividends received (see note 3)	-	-
<b>2.5</b> Other (provide details if material)	-	-
<b>2.6</b> <b>Net cash from / (used in) investing activities</b>	<b>(16)</b>	<b>(291)</b>

<sup>3</sup> Cash outflow in current quarter relates to data centre, cloud and modular platform expansion.

<b>3. Cash flows from financing activities</b>		
<b>3.1</b> Proceeds from issues of equity securities (excluding convertible debt securities)	-	580
<b>3.2</b> Proceeds from issue of convertible debt securities	-	-
<b>3.3</b> Proceeds from exercise of options	-	-
<b>3.4</b> Transaction costs related to issues of equity securities or convertible debt securities	(8)	(16)
<b>3.5</b> Proceeds from borrowings <sup>4</sup>	<sup>4</sup> 200	526
<b>3.6</b> Repayment of borrowings	(151)	(509)
<b>3.7</b> Transaction costs related to loans and borrowings	-	-
<b>3.8</b> Dividends paid	-	-
<b>3.9</b> Other:	<sup>5</sup> 207	827
<b>3.10</b> <b>Net cash from / (used in) financing activities</b>	<b>248</b>	<b>1,408</b>

<sup>4</sup> Director loan from Mr Blake Burton, who is Managing Director of DC Two.

<sup>5</sup> Cash acquired on acquisition of Attained which was completed on 31 March 2023.

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	836	601
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(213)	(863)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(16)	(291)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	248	1,408
4.5 Effect of movement in exchange rates on cash held	-	-
<b>4.6 Cash and cash equivalents at end of period</b>	<b>855</b>	<b>855</b>

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	648	836
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other – Attained bank balance	<sup>5</sup> 207	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>855</b>	<b>836</b>

**6. Payments to related parties of the entity and their associates**

6.1 Aggregate amount of payments to related parties and their associates included in item 1	26
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

**Current quarter  
\$A'000**

*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.*

Salary and wages plus superannuation of all related parties. No director fees were paid this quarter to help preserve the company's cash reserves

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7. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	1,066	966
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	1,518	1,428
<b>7.4 Total financing facilities</b>	<b>2,584</b>	<b>2,394</b>

7.5 Unused financing facilities available at quarter end 90

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.

**Loan Facilities:** Included under loan facilities are:

**1. Convertible Notes**

On 2 May 2022 the company raised \$502,500 via the issue of convertible notes. The notes must be converted within 2 years from date of issue. Interest accrues at the rate of 12% per annum on the principle amount. On conversion of the convertible notes, the noteholders will receive 1 unquoted option for every 2 shares issued on conversion, with an exercise price of \$0.11 expiring 2 years after the date of issue.

As at 31 March 2023 the maximum number of Convertible Note Options and Interest Shares which may be issued on or before the date of maturity in accordance with the terms of Tranche 1 Convertible Note are as follows:

Security	Maximum Number
Convertible Note Options	2,462,500
Interest Shares	1,185,238

To date \$256,250 notes have converted with no conversions taking place this quarter. The remaining convertible notes will convert into fully paid ordinary shares in DC Two at the higher of \$0.05 or a 20% discount to the 20-day VWAP immediately prior to conversion, subject to a maximum price of \$0.15. The current carrying amount of convertible notes comprises principal of \$246,250 and capitalised interest of \$158,793.

**2. Director Loans**

- a) Director loans of \$361,000 which are interest free and repayable on 1 October 2024. The directors may also elect to convert the loans to share capital subject to shareholder approval.
- b) Director loan of \$200,000 with an interest rate of 8% p.a., repayable on 27 August 2023 or on sale of the modular business or earlier if agreed by the company. The loan and capitalised interest may be converted into fully paid ordinary shares with shareholder approval. The loan has a standby amount facility of \$100,000 that can be drawn on if required by the company.

**Other:** Included under other is the carrying amount of equipment finance leases with a variety of financiers with varying maturity dates and a weighted average interest rate of 7.05%. There is \$90,000 available on this facility.

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8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(213)
8.2	Cash and cash equivalents at quarter end (item 4.6)	855
8.3	Unused finance facilities available at quarter end (item 7.5)	90
8.4	Total available funding (item 8.2 + item 8.3)	945
<b>8.5</b>	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>4.43</b>

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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?

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?

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

### Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 27 April 2023

Authorised by: The Board of Directors

(Name of body or officer authorising release – see note 4)

### Notes

- 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.
- 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.
- 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.
- 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".
- 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.

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