

ASX ANNOUNCEMENT 29 JULY 2022

JUNE 2022 QUARTERLY REPORT

HIGHLIGHTS

- Presentation to the Board of the updated long-term strategy for maximising revenue growth and shareholder value by accelerating Sell My Shares new product development, data validation and staking returns on digital asset treasury, new fund products with tokenised real world asset focus, and venture investments and incubation underpinned by a cost conscious and ESG focus. Implementation has commenced
- Revenue from Sell My Shares continues to increase, up 15.9% on the previous quarter
- DigitalX recognised as a dual finalist in Fintech Australia Awards for regtech and wealth management
- Final stages of development to launch an automated trade processing system to underpin growth of the Sell My Shares business
- Completion of Business Research and Innovation Initiative (BRII) regtech feasibility study and delivery to ASIC
- Application for the second round of BRII funding for \$1M to expand Drawbridge application
- DigitalX commences reduction of carbon environmental impact by offsetting 60t of CO2 through innovative non fungible token (NFT) partnership with Metacarbon Inc.

DigitalX Limited (ASX:DCC, OTCQB:DGGXF) ('DigitalX' or 'the Company') provides its Appendix 4C cash flow statement for the quarter ended 30 June 2022 along with the following operational update.

QUARTERLY OVERVIEW

A. Summary of Working Capital Position

DigitalX had cash, listed digital assets and liquid unlisted investments of over AU\$23.53m in value as at 30 June 2022.

Name	Value (\$AUD)
Australian Dollars ²	\$6,141,297
Bitcoin ³	\$6,194,578
Fund units ⁴	\$7,170,896
Human Protocol ⁵	\$3,531,250
Other liquid investments ⁶	\$496,930
Total	AUD\$23,534,951

¹ Since the end of the quarter, the Bitcoin price has increased from AUD\$28,684 to AUD\$32,800 at the date of this report.

² Includes \$500,000 XAUD token which the company considers to be cash and cash equivalent.

³ Total Bitcoin in treasury at 30 June 2022 was 215.95.

⁴ Includes total units in the DigitalX BTC Fund and DigitalX Fund based on the respective NAV at 30 June 2022.

⁵ Based on the closing price per coinmarketcap.com.

⁶ Total excludes amounts for tokens pending listing and/or for which an active market is not observable.

⁷ USD/AUD spot rate at the quarter ended 30 June 2022 was \$1.4484.

The Company saw a quarter-on-quarter decrease in the value of its cash, digital assets, and fund units of \$26.64m (53.1%) from \$50.18m to \$23.53m. The decrease was primarily attributable to the fall in the digital asset market following a sustained period of heightened macro volatility due to rising interest rates, uncertainty from global conflict, US equity markets and liquidity and solvency issues of larger firms within the digital asset market such as Celsius, Voyager and Three Arrows Capital.

This market has seen the value of the Company's Human Protocol tokens decline by ~70%. The current market price still represents a significant premium to DigitalX's effective entry price of ~\$0.05.

Total cash on hand decreased \$729k from \$6.87m to \$6.14m primarily due to operating cash outflows for the period of \$726k noted in the Appendix 4C.

Total cash receipts for the March quarter of \$672k were up on the previous quarter from \$644k (4% increase). The previous quarter included a one-off receipt for the ASIC regtech grant that was finalised during the June 2022 quarter of \$109k and funds management receipts were down \$175k as there were no performance fees received during the quarter (\$165k in prior quarter). However, this has been offset by an increase in receipts for Sell My Shares with unaudited revenue up 15.9% for the quarter. Further information around the funds management activities is provided in the business activities section below.

Expenditure incurred during the quarter was comprised predominantly of:

- Staff costs of \$693k - which represents an increase of \$189k on the prior quarter of \$504k. This increase was in line with expectation and as previously reported in the March 2022 Quarterly Report the Company is seeking to accelerate its growth through the expansion of the funds management team, commencement of new CEO, and new Head of Marketing to help drive product sales and new fund flows. Due to the nature of the Company's payroll processing the June quarter included one additional fortnight payment run compared to the previous quarter.
- Administration and corporate costs of \$327k - up \$99k on the prior quarter of \$228k. A number of factors contributed to this increase including a higher level of travel for the quarter as the Company integrates new staff as well as pursuing business development opportunities. The Company also took on office space in Sydney in March 2022 in line with the expanded funds team.
- Professional fees of \$155k - down on the prior quarter level of \$211k, underlying activity was consistent quarter on quarter and the variance relates to a timing difference for payment of fund licensing fees expected to be made in July 2022.
- Marketing costs of \$224k - up \$32k on the prior quarter of \$192k. The expenditure primarily relates to online advertising expenses for Sell My Shares, funds management and Drawbridge.

The Company is conscious of the operating outflow for the quarter and continues to have a very close focus on cost management and solid financial discipline while balancing the need for growth in its products and heightened market volatility.

In addition to the operating cash flows noted above, the Group incurred investing expenditure of \$3k for minor asset purchases.

In accordance with ASX Listing Rule 4.7C.3, \$45k was paid to related parties or their associates during the quarter, (down on the prior quarter level of \$57k), including Non-Executive Director remuneration and legal fees paid to Steinepreis Paganin (of which DigitalX Chair Mr Hicks is a Partner).

B. Business Activities

Overview

DigitalX's corporate objective is to generate a return for shareholders by growing the blockchain economy. In line with its strategy for achieving this, the Company has been continuing to execute on opportunities to deliver shareholder returns through both the development of new blockchain technologies and investment in digital assets as an emerging asset class.

The Company's Management and team continued to drive value for shareholders within the blockchain economy over the quarter through initiatives that included:

- Development of the new technology system to support and grow the Sell My Shares business.
- Delivery of the ASIC regtech grant report and submission of the next stage grant application.
- Development work to begin testing work for deployment of an Ethereum node.

DIGITAL ASSET FUNDS MANAGEMENT

DigitalX is the investment manager of digital asset investment products that provide qualified investors with a secure and traditional method to invest into the digital asset sector. The Company operates two professionally managed wholesale funds, the DigitalX Bitcoin Fund and the Digital Asset Fund, a diversified basket of leading digital assets. The DigitalX digital asset funds solve the technical and administrative challenges of investing in this emerging asset class.

Fund Performance

At the end of the quarter, funds under management had fallen from \$31.46m to \$13.41m following a sustained period of heightened macro volatility due to rising interest rates, uncertainty from global conflict and digital asset market specific events such as the impact of the collapse of Terra/Luna and bankruptcy filings for several large firms in the space including Celcius, Voyager and Three Arrows Capital.

As noted in the Company's Monthly Funds Under Management Announcement for May 2022 and June 2022 the Company and the Funds avoided exposure to Terra/Luna and the firms filing for bankruptcy as a result of our ongoing and in-depth research analysis and aim to be "the safe pair of hands" in the digital asset funds space.

The DigitalX Bitcoin Fund and the DigitalX Digital Asset Fund saw returns for the quarter, net of fees, of (54.32%) and (64.12%) respectively. Comparatively the Crypto20¹ index saw a decline of (68.54%).

Despite the continued volatility, net flows for the funds for the quarter remained positive with net flows of \$0.28m for the quarter (prior quarter \$0.15m). The Company's Bitcoin Fund and DigitalX Digital Asset Fund were also listed on the Mason Stevens distribution platform during the quarter further enhancing the distribution channels for the fund. This platform listing is in addition to the existing listings with Netwealth and Powerwrap.

Recognising the volatility and uncertainty within the markets, the funds team also ran two investor events in May to engage with existing and potential investors across Sydney and Melbourne.

The Company was pleased to note that DigitalX Asset Management was recognised as a finalist in the wealth management category for the Fintech Australia Awards².

The Company continues to remain focussed on its funds management business through further investment in systems and processes to ensure the funds are at an investment grade level. Following the investment grade rating of the Bitcoin Fund in December 2021, the team is completing the necessary work required to submit the DigitalX Fund for rating by September/October.

PRODUCT DEVELOPMENT

DigitalX is growing a portfolio of digital finance products and services to transform the way investors and listed company customers originate, invest, and transact with their assets.

During the quarter, the Company's product development team focused on the completion of a new technology system for growing the Sell My Shares business by providing increased automation and an improved customer experience. This new system will allow the Sell My Shares back-office system to connect to and process trades originating from external sources, thereby enabling growth from channel partnerships with financial services and fintech companies. Roll out of the new system is on track to be completed in August 2022.

As part of expanding its Drawbridge application, the Company completed its regtech feasibility study in collaboration with ASIC following successful selection for Federal Government funding as previously announced. The study resulted in the discovery and development of a promising approach to efficiently identifying regulatory issues within large volumes of ASX company announcement text using machine learning techniques. Completion of the feasibility study means that DigitalX is one of five grant recipients now eligible for an additional two lots of funding for up to \$1m per recipient. If successful, the use of this grant funding will focus on the further development and commercialisation of the solution to potential customers and regulators such as ASIC. Successful grant recipients are expected to be announced by the Department of Industry within the third quarter of 2022.

The June quarter also saw the development team begin testing the deployment and operation of nodes for two blockchain networks. An Ethereum node to generate interest-like returns on the Company's Ethereum (ETH) holdings is the first objective. Returns are generated through the process of staking, where nodes are rewarded for providing computational power to the blockchain validation process while being required to lock or stake a given amount of ETH. The first node is expected to be live by the end of July 2022.

¹ <https://www.crypto20.com/en/portal/performance/>

² <https://www.thefinnies.org.au/finnies-2022-finalists-winners/>

The ongoing development of blockchain-based nodes is being used to underpin the Company's ability to be a provider and validator of data about real-world assets on-chain, which is foundational to the digitisation and unlocking of new real-world assets through tokenisation.

C. Corporate Activities

Strategy

As foreshadowed in the March 2022 Quarterly Report the Company has been working on a strategy refresh following the appointment of new CEO, Lisa Wade, and using her extensive experience to build on the foundation of the existing business and strategy.

During the quarter, the Board approved the strategy refresh incorporating the short-term strategic focus on maximising revenue growth and setting a long-term strategic vision for the business laying the foundation for growth in the next 5 years while generating shareholder value.

The short-term strategic focus on maximising revenue centres around:

- Accelerating Sell My Shares new product development and revenue streams;
- Data validation and staking returns on digital asset treasury;
- Leveraging Drawbridge as the Web3 gateway for corporates;
- New fund products with a focus on tokenised real word assets;
- Venture investments and incubation underpinned by a cost conscious and ESG focus; and
- Underpinning this strategy remains a core focus on ESG and cost consciousness.

The Company intendeds to provide more detail on the strategy refresh in presentation format at an appropriate time in the near future.

Environment, Social, and Governance (ESG)

As part of its ongoing commitment to ESG, the Company is pleased to provide an update on key initiatives during the quarter:

- Following the initial work in the March 2022 quarter, the Company followed through on its work around beginning to offset its environmental impact of its corporate activities and bitcoin holding. During the quarter, the Company offset 60t of carbon dioxide through a unique partnership³ with Metacarbon Inc. whereby the carbon offsets are represented through a non-fungible token (NFT).
- In line with the strategy work and the purpose pillar of the WEF framework, the Company completed an exercise to review and re-define its core purpose. The results of this activity will be communicated in conjunction with the strategy refresh presentation noted above.
- The Company completed its annual board skills matrix update and review in line with the ASX Corporate Governance Principles and the board skills component of the WEF framework. As part of this work ESG factors have been incorporated into the matrix.

³ <https://app.carbon-creatures.com/transparency/digitalx-koala>

- The Company completed the implementation work for its new human resources (HR) system to allow the Company to accurately track, measure and report on the people components of its ESG strategy including better reporting around diversity and training.
- The Company completed its annual risk review in line with ASX Corporate Governance Principles and the risk component of the WEF framework. As part of this work ESG factors have been incorporated into the risk register and further uplift in the Company's risk management process have been approved including the appointment of a highly experienced and dedicated risk resource.

Additional information, as well as the most up to date report, is available on the Company's website <https://www.digitalx.com/esg>.

Mt Gox

In the March 2022 quarterly report, the Company noted that it had previously commenced proceedings in the District Court of Massachusetts to secure the rights to Bitcoin that has been recovered by liquidators of historical crypto exchange, Mt Gox. In February 2014, prior to the Company acquiring its Bitcoin mining business and re-complying with Chapters 1 and 2 of the ASX Listing Rules, the Mt Gox Bitcoin Exchange was shut down after it was hacked. As set out in the Company's Prospectus dated 12 May 2014 (2014 Prospectus), one of the subsidiaries acquired by the Company lost access to 351 Bitcoin as part of that hack. The Company became aware that Mr Alex Karis, a former Director of the Company, had lodged a claim with the bankruptcy trustee of Mt Gox for the 351 Bitcoin in his own name, despite Mr Karis having entered into an agreement to transfer the trading accounts to which those Bitcoin relate to a subsidiary of the Company (as referred to in Section 11.17 of the Company's 2014 Prospectus).

This matter remains ongoing in the District Court of Massachusetts and the Company will update the market at the appropriate time.

In the March 2022 quarterly report, the Company noted that Mr Karis had filed proceedings in the Federal Court of Australia claiming amounts he states are owing to him by the Company. Following the initial engagement with legal counsel, the Company still asserts that it does not owe any amount to Mr Karis and intends to defend these proceedings to the fullest extent. By the end of the June quarter the matter was still awaiting direction from the Court on the case management process. The Company will provide updates to the market in relation to these matters as appropriate.

D. Outlook

DigitalX Chief Executive Officer, Lisa Wade said: *"As a business operating in financial markets, we had a challenging quarter in the current stagflationary, 'risk-off' climate - in particular with sharp falls in digital asset prices impacting the valuation of bitcoin and digital assets held in our funds and on our Company balance sheet.*

As a business, we bunkered down and set our focus on building new features to maximise revenue from Sell My Shares, which went from strength to strength and pleasingly had record revenue since being acquired, for the month of June.

The leadership team delivered a refreshed strategy to the Board that was approved. This strategy is designed to position us for revenue growth with a continued stringent focus on costs.

Although we cannot control market conditions, we can focus our efforts on our core strength as a builder. This new strategy delivers a roadmap that will position us as the builders of significant new digital finance initiatives, the builders of global digital finance.

The strategy sees us focus on being number one in our market across five key strategic objectives. These objectives are centered on maximising shareholder value with clear financial hurdles, transparent deliverables, and measurable milestones framed across a 'now, next and beyond' horizon. As the quarter rolls out, we will be uplifting our investor relations activity to send a clear and focused message to the market.

In our funds business, we continue to be focused on investment research in delivering a "safe pair of hands" approach to the investments we make.

I see our Drawbridge product as an amazing centrepiece for corporate executives to bridge compliance and digital financial services using our application portal. As the world moves into Web3.0, digital financial infrastructure will become further embedded into asset ownership and settlement layers through the use of programmable assets and smart contracts.

Although the narrative in crypto markets and outlook remains subdued, there is little doubt that the true mainstream moment for digital finance will occur with the move towards the tokenisation of real-world assets. DigitalX is perfectly placed to capitalise on this shift by validating asset data to enable the tokenisation of real-world assets from both an investment and transactional standpoint."

- Ends -

Authorised by the Board of DigitalX Limited.

For further information, please contact:

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About DigitalX

DigitalX Limited (ASX: DCC, OTCQB: DGGXF) is a technology and investment company focused on blockchain consulting, digital asset funds management, and RegTech. DigitalX's consulting division designs and develops blockchain technology applications for business and enterprise organizations. Through its asset management division, DigitalX provides low-cost traditional asset management products for qualified investors looking to gain exposure to the growing alternative asset class of digital assets, including Bitcoin. DigitalX is currently commercialising Drawbridge, the Company's first RegTech solution that supports listed companies in better managing their compliance and corporate governance policies. With Drawbridge, companies can manage employee and director share trading approvals in order to safeguard their reputations.

www.digitalx.com | <https://digitalx.fund> | www.opendrawbridge.io | www.sellmyshares.com.au

APPENDIX 4C

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

Name of entity

DigitalX Limited

ABN

59 009 575 035

Quarter ended ("current quarter")

30 June 2022

Consolidated statement of cash flows	Current quarter \$AUD'000	Year to date (12 months) \$AUD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	672	2,232
1.2 Payments for		
(a) research and development	-	-
(b) advertising and marketing	(224)	(661)
(c) leased assets	-	-
(d) staff costs	(693)	(1,916)
(e) administration and corporate costs	(327)	(1,105)
(f) professional fees	(155)	(773)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	23
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	(68)
1.9 Net cash from / (used in) operating activities	(726)	(2,268)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	(1,890)
(c) property, plant and equipment	(3)	(28)
(d) investments	-	-
(e) intellectual property	-	(162)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$AUD'000	Year to date (12 months) \$AUD'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	250
	(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	(3)	(1,830)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	235
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	235

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,870	10,020
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(726)	(2,268)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(1,830)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	235

Consolidated statement of cash flows		Current quarter \$AUD'000	Year to date (12 months) \$AUD'000
4.5	Effect of movement in exchange rates on cash held	-	(16)
4.6	Cash and cash equivalents at end of period¹	6,141	6,141

Note 1: At the date of this report, the Group also holds Bitcoin, listed digital assets and other unlisted investments not included above but which are considered to be highly liquid and can be converted into cash when required as set out on page 1 of the Quarterly Activities Report.

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 \$AUD'000	Previous quarter \$AUD'000
5.1	Bank balances	5,641	6,370
5.2	Call deposits	500	500
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)	6,141	6,870

6.	Payments to related parties of the entity and their associates	Current quarter \$AUD'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 ²	45
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note 2: Amounts paid to related parties includes Executive Director salary, superannuation and payout of accrued entitlements, Non-Executive Director superannuation, and legal & consulting fees.

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 \$AUD'000	Amount drawn at quarter end \$AUD'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-

7.5 Unused financing facilities available at quarter end

-

7.6 Description of facilities

-

8.	Estimated cash available for future operating activities	\$AUD'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(727)
8.2	Cash and cash equivalents at quarter end (item 4.6)	6,141
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	6,141
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	8.46

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

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: Not applicable

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: Not applicable

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: Not applicable

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

Authorised by: Board of DigitalX Limited

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.