

TRANSITION TO THE NEXT PHASE OF GROWTH

SEPTEMBER 2022 (Q1 FY23) ACTIVITIES AND CASHFLOW REPORT

Highlights:

- The Company has successfully implemented several growth initiatives towards its strategic evolution.
- Q1 FY23 recurring revenue increased 78% compared to Q1 FY22, to ~\$1.04 million.
- Reduction of ~37% in net cash outflows for the first quarter of fiscal 2023 compared to the prior quarter, demonstrating management's ability to control costs while progressing its overarching strategy.
- The Company has received binding commitments to raise A\$1,039,500 at \$0.039 per share, via a two-tranche placement to sophisticated and institutional investors.
- Undertaking a Share Purchase Plan to raise up to a further A\$1,000,000 (with the ability to accept oversubscriptions), with eligible shareholders able to acquire shares at the same offer price per share as the placement.

31 October 2022: 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 30 September 2022.

During the first quarter of fiscal 2023, the Company successfully implemented several growth-focussed initiatives aimed at reducing costs and improving the overarching strategic outlook. (ASX: 29 September 2022).

"Since the announcement of the new strategic shift during May 2022, management has been working on creating the necessary foundations for the next phase of growth. From vertically integrated infrastructure to cloud and software, the Company is looking to develop and acquire¹ the necessary building blocks to fulfill its overarching strategy," said the Company's Managing Director, Blake Burton. "The funds secured as part of the placement ensure adequate capital for the Company to deliver on its short-term objectives towards its broader vision."

As part of this strategy, the Company has continued to assess several M&A growth opportunities¹ aimed at building a unique technology offering, leveraging its existing core assets and services within the broader microservices IT sector. Aligned with this rationale, the Company's management has been following its previously stated four-step strategy: (ASX: 2 May 2022)



1) Secure growth capital & improve cost efficiencies:

The Company has received binding commitments to raise A\$1,039,500 at \$0.039 per share, via a two-tranche placement to sophisticated and institutional investors. Furthermore, the Company is undertaking a Share Purchase Plan to raise up to a further A\$1,000,000 (with the ability to accept oversubscriptions), with eligible shareholders able to acquire shares at the same offer price per share as the placement.

The Company notes a reduction of ~37% in net cash outflows for the first quarter of fiscal 2023 compared to the prior quarter. This reduction represents a strong focus from management to control costs while it progresses its overarching strategy.

2) Bolster and incentivise team:

During the quarter, the Company has:

- Implemented a revised commission structure for its sales team to incentivise long-term customer engagement.
- Proposed a new Employee Securities Incentive Plan as part of its Notice of Meeting dated 12 October 2022.
- Developed an Employee Share Scheme to reduce cash outflows while incentivising and aligning employees to the broader results of the Company and its stakeholders.

3) Explore complementary growth sectors:

The Company has been assessing several opportunities to leverage and expand its existing core assets and services to deliver a unique market offering. To this purpose, the Company is currently evaluating several opportunities to strategically position itself within the broader microservices IT sector.¹

4) Maximise current assets:

The Company has continued to leverage its existing core assets, including its modular data centre located in Victoria, which has become fully operational and revenue generating during the quarter. The Company's two modular data centres are approaching capacity. For this reason, management has been focussing on growing sales as part of a broader technology-focussed restructuring.

Outlook

Following the new strategic vision announced in May 2022, the Company has been working on setting the necessary foundations for its next phase of growth: from vertically integrated infrastructure (data centres) to cloud and software, the Company is looking to develop and acquire¹ the necessary building blocks to fulfill its overarching strategy.

During the next months and leading into the third quarter, the Company will provide more information and market updates towards its strategy, objectives, and achievements.

Successfully raised growth capital

During the quarter, the Company received binding commitments to raise A\$1,039,500 at \$0.039 per share, via a two-tranche placement to sophisticated and institutional investors. The placement will see the Company issue 26,653,853 new fully paid ordinary shares, with a total of 7,516,666 new shares issued in the first tranche under ASX Listing Rule 7.1A, and the remaining shares will be issued in a second tranche following shareholder approval at the AGM on Friday 11th November 2022.

The Company is also undertaking a share purchase plan (“SPP”) to raise up to \$1,000,000 with the ability to accept oversubscriptions. Existing eligible DC Two shareholders will be given the opportunity to acquire additional shares up to a maximum of \$30,000 per eligible shareholder at the same issue price as shares issued under the Placement, being \$0.039 per share.

Financial Summary

Total Q1 FY23 revenue was A\$1,089,980, with recurring revenue increasing 78% compared to Q1 FY22, to A\$1,041,823. This increase marks the seventh consecutive quarter of recurring revenue growth. The Company notes that its strategic growth plans within the microservices sector will focus on long-term recurring revenue initiatives for the creation of value for its stakeholders.

The Company delivered \$1.3 million in cash receipts from customers during the first quarter.

The Company ended the quarter with A\$655,000 cash on hand, with A\$248,000 secured from the first tranche of DC Two’s A\$1,000,000 capital raise. The remaining A\$791,500 is expected via the second tranche following shareholder approval at the Company’s AGM on Friday 11th November 2022. The Company is also undertaking a share purchase plan (“SPP”) to raise up to \$1,000,000, with the ability to accept oversubscriptions.

The attached Appendix 4C provides details on the cashflows for the quarter ended 30 September 2022. As at 30 September 2022 the Company had a cash balance of A\$654,725. The Company’s net cash used in operating activities for the quarter amounted to \$235k and included expenditure on product manufacturing and operating costs (A\$918k), advertising and marketing (A\$22k), staff costs (A\$411k), administration and corporate costs (A\$74k) and leased asset expenditure (A\$131k).

Use of Funds and Related Party Transactions

In accordance with ASX Listing Rule 4.7C.2, The Company's use of funds statement is at Annexure A. In accordance with ASX Listing Rule 4.7C.3, payments in the September 2022 quarter to related parties of approximately \$76k 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:

Blake Burton

Managing Director

DC Two Limited

1300 331 888

investors@dctwo.com.au

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 and is currently rolling out DC Modular - a containerised "data centre in a box" innovation. 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.

ANNEXURE A – USE OF FUNDS STATEMENT

DC Two was admitted to the official list of the ASX on 6 November 2020 following completion of an IPO raising of \$5.5m. The September 2022 quarter is included in a period covered by a use of funds statement in the IPO prospectus lodged with ASX under Listing Rule 1.1 condition 3.

A comparison of the Company's actual admission to 30 September 2022 against the estimated expenditure in the use of funds statement is set out below as required by ASX Listing Rule 4.7C.2.

Use of Funds	Prospectus	Actual to Date (6 Nov 2020 – 30 Sep 2022)
Expenses of offers	\$ 604,666	\$ 563,934
Cloud platform expansion	\$ 584,900	\$ 3,560,375
Data centre expansion	\$ 1,800,000	\$ 3,831,922
Growth of DC soft business	\$ 300,000	\$ 242,404
Growth of DC modular business	\$ 800,000	\$ 3,652,242
Loan repayment	\$ 130,000	\$ 126,009
Administration costs	\$ 300,000	\$ 1,615,638
Working capital	\$ 1,113,205	\$ 1,124,463
Total Expenditure	\$ 5,632,771	\$ 14,716,987

The Company notes:

1. That since admission, the Company has received total cash receipts of approximately \$6.99m, which include the total cash receipts of approximately \$1.3m for the September 2022 quarter. Of the total cash received since admission, approximately \$3.5m relate to the cloud platform expenditure. Additionally, the Company received \$326k of equipment financing funds during the quarter.
2. The expansion of the modular sites continued this quarter with the Victoria site being commissioned early in the quarter. In total, \$359k was spent on the Victoria and Mid-West sites.
3. Expenditure to bring our flagship Bibra Lake Facility up to world-class standards including preparation for Tier III implementation continued during the quarter with \$270k spent on these activities.
4. Expenditure on the development and improvement to the user functionality features of our Cloud platform continued resulting in approximately \$615k cash being expended on these activities during the September 2022 quarter.

[ENDS]

1 - The Company advises that at the date of this announcement, discussions relating to potential transactions remain early stage, incomplete and confidential. There can be no certainty that any binding agreement or agreements will be reached, that any transaction will eventuate or that any required shareholder approvals or regulatory approvals will be obtained. The Company will update the market in accordance with its obligations under ASX Listing Rule 3.1 and confirms that it is in compliance with Listing Rule 3.1.

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")

30 Sep 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,321	1,321
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(918)	(918)
(c) advertising and marketing	(22)	(22)
(d) leased assets	(131)	(131)
(e) staff costs	(411)	(411)
(f) administration and corporate costs	(74)	(74)
(g) crypto mining expenditure	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 – IPO expenses	-	-
1.9 Net cash from / (used in) operating activities	(235)	(235)

¹ No receipts or expenditure incurred on crypto mining activities in this quarter

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment ²	² (134)	² (134)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(134)	(134)

² Cash outflow in current quarter relates to data centre, cloud and modular platform expansion.

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	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	³ 326	³ 326
3.6	Repayment of borrowings	(151)	(151)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – Funds held on trust for unissued shares at end of quarter	248	248
3.10	Net cash from / (used in) financing activities	423	423

³ Borrowings in current quarter relates to modular activities

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	601	601
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(235)	(235)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(134)	(134)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	423	423
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	655	655

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	655	655
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)	655	655

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

Current quarter \$A'000
76
-

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.

Relates to Director fees, salary and wages plus superannuation of all related parties.

7. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	898	898
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	1,847	1,847
7.4 Total financing facilities	2,745	2,745

7.5 Unused financing facilities available at quarter end -

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.

Included under loan facilities is:

1. The carrying amount of the convertible notes which comprises principal of \$496,250 and capitalised interest of \$40,591. The 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. Interest accrues at the rate of 12% per annum on the principle amount. On conversion of the convertible notes, and subject to shareholder approval, 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
2. 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.

Other

Included under other is the carrying amount of equipment finance leases with a variety of financiers with varying maturity dates and at a weighted average interest rate of 7.05%

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(235)
8.2 Cash and cash equivalents at quarter end (item 4.6)	655
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	655
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2.78

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?

N/A

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?

N/A

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

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: 31 October 2022

Authorised by: The Board of Directors

(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.