



31st October 2022

ASX Announcement

Quarterly Report

The Board of pre-fabricated modular Data Centre specialist, DXN Limited (ASX:DXN) ("**DXN**" or "**the Company**") is pleased to provide its quarterly report and Appendix 4C for the three months ended 30 September 2022 ("**Q1FY23**").

Highlights

- Successful capital raising in August 2022 of \$2.125m (before transaction costs)
- Cash receipts for Q1 FY23 - A\$1.705m, down slightly on the previous corresponding quarter (A\$1.720m)
- Cash position at 30 September 2022 - A\$2.036m
- DXN Cloud Product successfully launched in DXN SYD01 with initial customers
- DXN SYD01 secured a major international cloud storage customer during the quarter

Operating Update

Modular Data Centre Manufacturing

During the quarter, the modular manufacturing business successfully continued the delivery of the following projects:

- Multiplex – Centre of National Resilience (Perth) - main data centre and communication modules;
- Third data centre for Covalent Lithium;
- Cosmos Capital module; and
- BSCC Palau Cable landing station.

The modular manufacturing business also successfully designed, and market-tested new products for indoor telecommunications applications during the period.

Data Centre Operations

DXN's data centres continued to operate in line with expectations, with revenues for the quarter of A\$657k (**previous corresponding quarter** A\$293k), noting that the previous corresponding quarter does not include revenue from SDC Darwin.

DXN secured a major international cloud and bare metal customer into its Sydney data centre, with this customer expecting to grow its footprint in Australia.

DXN Limited

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Summary of Payments

During the quarter the Company's payments included the following:

- product manufacturing and operating costs of A\$1,358,000;
- staff costs of A\$1,185,000;
- administration and corporate of A\$453,000; and
- leased assets of A\$446,000.

Operating Cash Flow

DXN had a negative operating cash flow for the quarter. The cash flow result was mainly influenced by a lack of major new modular sales in the quarter. Since the announcement of the sale of business assets of DXN on 5 August 2022, there has been uncertainty towards the future of the business within DXN and as a result customers have delayed decisions on new projects. In some cases customers have, however, given DXN design orders initially to de-risk the major build component which are expected to follow in due course.

Cash Position

As of 30 September 2022, DXN had a cash balance of A\$2.036m.

Related Party Payments

The aggregate amount of payments to related parties and their associates included in the current quarter totalled A\$50k. These payments consisted of director's fees, salaries, and superannuation for non-executive directors. All payments were on normal commercial terms.

Outlook

In October 2022, DXN's module manufacturing business signed a major Australian telco customer for design services of an indoor data centre module. DXN is expecting further build orders following completion of this initial design work.

DXN is also focused on securing design and build orders for major new domestic mining customers in the next few months.

DXN is also expecting the new international cloud and bare metal customer in SYD01 to continue its expansion in the data centre as they extend their footprint in Australia.

In the announcement on 17 October 2022, DXN also stated that it would consider strategic options for its data centre businesses. DXN has now received non-binding indications of interest to acquire its data centre businesses and negotiations are being progressed with the interested parties.

In accordance with the terms of the Sale Agreement with Flow2Edge Australia Pty Ltd ("**FLOW**"), FLOW has provided notice to the Company the condition precedents to completion of the Sale Agreement, cannot be satisfied, therefore cannot proceed in its current form and the Sale Agreement will be terminated.

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The Board of DXN intends to consider alternative strategic options for its EDGE module manufacturing business, potentially including an alternative opportunity to partner with FLOW. This opportunity may take the form of a license and distribution arrangement with FLOW, details of which the Board of DXN is considering.

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About DXN Limited

DXN is Asia Pacific's only vertically integrated manufacturer and operator of modular data centres. DXN's core business is designing, engineering, manufacturing, maintaining and operating data centres.

The Company has two core divisions that provide a complete symbiotic relationship that better captures what we do, how we do it and why we do it.

These divisions are:

1. **Modular Division** – designs, engineers, manufactures, and deploys EDGE facilities and critical DC infrastructure; and
2. **Data Centre Operations** - operates, maintains and markets data centres and critical infrastructure for our own DXN data centres as well as our modular customers. For more <https://dxn.solutions>.

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ASX Release authorised by the Board

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Appendix 4C

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

Name of entity

DXN Limited

ABN

46 620 888 548

Quarter ended ("current quarter")

30 September 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	1,705	1,705
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,358)	(1,358)
(c) advertising and marketing	-	-
(d) leased assets	(446)	(446)
(e) staff costs	(1,185)	(1,185)
(f) administration and corporate costs	(453)	(453)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
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)	-	-
1.9 Net cash from / (used in) operating activities	(1,736)	(1,736)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,125	2,125
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	(150)	(150)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(8)	(8)
3.7	Transaction costs related to loans and borrowings	(114)	(114)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	1,853	1,853

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,925	1,925
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,736)	(1,736)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,853	1,853
4.5	Effect of movement in exchange rates on cash held	(6)	(6)
4.6	Cash and cash equivalents at end of period	2,036	2,036

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	2,036	1,925
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)	2,036	1,925

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	50
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><i>Includes director's fees, salaries and superannuation for non-executive directors.</i></p>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	4,000	4,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	4,000	4,000
7.5	Unused financing facilities available at quarter end		-
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>A \$4,000,000 secured facility with Pure Asset Management Pty Ltd to finance working capital and acquisitions. The interest rate (including line fee) is 11.25% p.a plus a 2.50% establishment fee. The maturity date is 14 October 2025. The facility is secured by a General Security Agreement over the assets of the company.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,736)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,036
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,036
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.17
	<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>	
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?	
	<p>Answer: Net operating cash flows are expected to be similar for Q2 FY2023 but will be significantly less if the sale of the three data centres is completed (as announced today). Additionally, the Company is expecting to receive an R&D Tax Incentive refund of \$1.029m in the coming weeks.</p>	

- 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: The Company intends to consider alternative strategic options for its EDGE module manufacturing business, potentially including an alternative opportunity to partner with Flow. This opportunity may take the form of a license and distribution arrangement with Flow, details of which the Board of DXN is considering. These discussions are early stage and there is no certainty that they will result in a definitive agreement.

In the announcement on 17 October 2022, DXN also stated that it would consider strategic options for its data centre businesses. DXN has received non-binding indications of interest to acquire its data centre businesses and negotiations are being progressed with the interested parties. The Company notes that these negotiations are also at an early stage and there is no certainty that negotiations will result in any definitive arrangements.

- 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: The Company expects to be able to continue its remaining operations, being the EDGE module manufacturing business and its data centre businesses. The Company will have sufficient cash to operate whilst the director's investigate strategic options for both businesses.

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: "By the Board"

(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.