

# CONTINUED GROWTH UNDER NEW STRATEGY

JUNE 2023 (Q4 FY23) ACTIVITIES AND CASHFLOW REPORT

Executive management is pleased to provide a progress update on the Company's **previously reported strategy** which shows continued growth to develop and return value to shareholders.

## Highlights:

- Continued growth in quarterly cash receipts, **increasing by ~77%** vs Q4 FY22
- Operating expenses for the quarter **down by ~74%** vs Q4 FY22
- Revenue for the quarter excluding DC Modular business **up by 176%** vs Q4 FY22, with total revenue for the quarter **increasing by 22%** to ~\$2.1m
- Acquisition of cyber security expert Thomas Cyber completed after year end
- Progression of the sale of the Company's non-core assets
- Management issued performance rights linked to reducing cash burn and increasing share price to ensure focus on creating significant value for shareholders
- Company continues to assess opportunities for growth in critical technology sectors as it expands its operations toward cloud microservices powered by AI

**31 JULY 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 30 June 2023.

## Quarter Overview:

The Company has continued its transition to the next stage of growth (ASX: 31 October 2022), building its unique technology offering into the broader cloud microservices sector powered by AI.

This strategy has delivered another strong quarter outlined by the following quarterly results compared to Q4 FY22:

- Cash receipts for the quarter of \$2.4m, **increasing by ~77%**
- Operating expenses **down by ~74%**
- Total revenue for the quarter of ~\$2.1m, **up by 22%**
- Revenue for the quarter excluding DC Modular business **up by 176%**

Moving into the first half FY24, the Company plans to continue to cross-sell services between its existing business units and the recently acquired Thomas Cyber to drive further organic growth. The Company's existing management team have been issued performance rights under the Employee Share Incentive Plan

(ESIP), with targets linked to reducing cash burn and increasing the share price to ensure focus is on creating significant value for shareholders.

## **M&A Overview:**

### **Attained**

During the quarter the Company announced the successful completion of the acquisition of Attained Group Pty Ltd (“**Attained**”) (ASX: 4 April 2023). This was the first acquisition by the Company under its new strategy, and was a pivotal step for the Company being able to cover several technology layers deemed critical to building an end-to-end market offering in the broader cloud microservices sector.

Since completion the Company has maintained a strong focus on integrating existing staff and systems with Attained. This has resulted in a number of new client wins occurring during the quarter through offering Attained services powered by DC Two infrastructure, which otherwise would not have been achieved without the combined offerings of both businesses.

This integration will continue into the first half of FY24 and is expected to lead to further organic growth from an increase in the number of new clients being onboarded, and the cross-selling of services between the businesses.

### **Thomas Cyber**

Following year end the Company announced the acquisition and successful completion of the assets and business of cyber security expert, Shimazaki Management Group Pty Ltd trading as Thomas Cyber (“**Thomas Cyber**”) (ASX: 17 July 2023). The consideration for the acquisition is performance-based only, with a \$0.025 floor share price, demonstrating the incoming management’s commitment to the Company’s organic growth strategy.

The existing management of Thomas Cyber will now lead a newly formed cyber division within the Company, encompassing Thomas Cyber and the existing cyber security capabilities within DC Two and Attained.

The Company plans to expand the current cyber security services offered through Thomas Cyber by utilising the Company’s existing infrastructure and AI capabilities. This includes developing new systems using AI technology.

In doing so, the Company’s management team is confident that the new cyber security division can deliver a greater number of cyber security services effectively, and scale up quickly, with the rapidly evolving cyber security market expected to reach USD13.95 billion by 2028 in Australia alone, growing at a CAGR of 18.44%<sup>1</sup>

### **Disposal of non-core assets**

The agreement for the disposal of the Company's non-core infrastructure assets to D Comm Infrastructure Pty Ltd ("DComm") continues to progress with the satisfaction of the Buyer's due diligence during the quarter (ASX: 8 June 2023). The Company and DComm are continuing to work towards satisfying the remaining conditions precedents, and expect completion of the transaction to occur in September 2023.

Under the terms of the agreement, DComm provided a refundable exclusivity deposit of AUD \$80,000 (ASX: 27 February 2023). The Company and DComm have agreed that this exclusivity deposit will become non-refundable and paid to the Company by 7 August 2023.

### **Focus on reducing costs**

On 16 June 2023, the Company announced the appointment of Jesper Sentow as interim CFO, following the resignation of Bradley Goodsell on the same date. Mr Sentow has maintained a disciplined approach to cost control for the Company and is continuing to assess opportunities for further cost savings into FY24. During the first half of FY24 the Company plans to complete:

- The shut down of its smaller Osborne Park data centre after all remaining client services are moved to its flagship Bibra Lake data centre
- Non-renewal of the Attained office Perth City lease as it approaches end of lease
- Consolidate a number of suppliers and terminate duplicate services.

These initiatives are expected to result in savings of over \$300,000 per annum once implemented. These savings are in addition to the \$500,000 in annual cost savings previously announced (ASX: 29 September 2022), which were successfully implemented during FY23.

The Company will continue to assess value accretive M&A transactions to acquire technology and talented individuals, expands its capabilities and enhance its market position, driving further organic growth.

### **AUTHORISATION:**

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

### **INVESTOR RELATIONS CONTACT DETAILS:**

#### **Blake Burton**

Managing Director

DC Two Limited

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**ABOUT DC TWO:**

DC Two revolutionises the data centre and cloud technology landscape with its comprehensive suite of vertically integrated services. Our offerings encompass every aspect of the data centre and cloud technology stack, driven by cutting-edge microservices powered by AI. DC Two develops advanced software assets to optimize its internal operations and empower clients and technology partners worldwide with enhanced control, flexibility, and automation through AI-driven microservices.

**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. These forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the Company's control, and which may cause actual results to differ materially from those expressed in the statements contained in this release.

The Company cautions shareholders and prospective shareholders not to put undue reliance on forward-looking statements, which reflect the Company's expectations only as of the date of this announcement. The Company disclaims any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

**-ENDS-**

<sup>[1]</sup> AUSTRALIA CYBERSECURITY MARKET SIZE & SHARE ANALYSIS - GROWTH TRENDS & FORECASTS (2023 - 2028) <https://www.mordorintelligence.com/industry-reports/australia-cybersecurity-market>

+Rule 4.7B

## 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 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,434	6,277
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,703)	(4,363)
(c) advertising and marketing	(2)	(137)
(d) leased assets	(134)	(516)
(e) staff costs	(560)	(1,730)
(f) administration and corporate costs	(124)	(419)
(g) crypto mining expenditure <sup>1</sup>	<sup>1</sup> -	<sup>1</sup> -
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>	(8)	(72) <sup>2</sup>
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(97)</b>	<b>(960)</b>

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

<sup>2</sup> This relates primarily 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	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(c) property, plant and equipment	(34)	(325)
	(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	112 <sup>3</sup>	112 <sup>3</sup>
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>78</b>	<b>(213)</b>

<sup>3</sup> Cash inflow from sale of IP addresses held by Attained Group Pty Ltd

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	580
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	-	(16)
3.5	Proceeds from borrowings <sup>4</sup>	-	526
3.6	Repayment of borrowings	(189)	(698)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other:	27	854
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(162)</b>	<b>1,246</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	855	601
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(97)	(960)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	78	(213)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(162)	1,246
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>674</b>	<b>674</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> 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	647	648
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other – Attained bank balance	27	207
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>674</b>	<b>855</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
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter  
\$A'000

26

-

*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

**7. Financing facilities available**

*Add notes as necessary for an understanding of the position*

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	1,095	995
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	1,534	1,389
<b>7.4 Total financing facilities</b>	<b>2,629</b>	<b>2,384</b>

7.5 Unused financing facilities available at quarter end 145

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.

**7.1 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 principal 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 30 June 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 Notes 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 \$187,525.

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.

**7.3 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 \$145,000 available on this facility.



8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(97)
8.2 Cash and cash equivalents at quarter end (item 4.6)	674
8.3 Unused finance facilities available at quarter end (item 7.5)	145
8.4 Total available funding (item 8.2 + item 8.3)	819
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>8.44</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

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 31 July 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.