

STRONG GROWTH TOWARDS CLOUD MICROSERVICES

DECEMBER 2022 (Q2 FY23) ACTIVITIES AND CASHFLOW REPORT

Highlights:

- Strong second quarter for FY23 with cash receipts growing 41% compared to Q2 FY22, to ~\$1.18 million.
- Second quarter revenue increased 44% compared to Q2 FY22, to ~\$1.1 million.
- Second quarter recurring revenue increased 57% compared to Q2 FY22, to ~\$1.08 million.
- Strong cash management initiatives deliver 36% reduction in operating cash burn for the quarter compared to Q2 FY22.
- Proposed acquisition of Attained (ASX: 30 December 2022) expected to deliver continued strategic growth in cloud microservices sector.
- Company continues to assess strong opportunities for growth in critical technology sectors for the second half of fiscal 2023.

31 JANUARY 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 December 2022.

Overview:

During the first half, 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.

These initiatives have delivered a strong quarter with cash receipts growing to ~\$1.18 million, up by 41% compared to Q2 FY22. Quarterly revenue (unaudited) grew by 44% compared to Q2 FY22, to ~\$1.1 million.

“During the first half, the Company continued to review its operations and existing core assets towards the broader cloud microservices offering. This focus has delivered a strong first half, with the Company moving towards the acquisition of Attained” commented Blake Burton, the Company’s Managing Director. *“The Company is building a unique offering of several technology layers, underpinned by strong financial results that will enable the next phase of growth.”*

Recurring revenue (unaudited) increased to ~\$1.08 million, up by 57% compared to Q2 FY22. During the period, the Company continued its focus on leveraging its existing core assets, including the Bibra Lake data centre, and the DC Two cloud platform, towards the broader cloud microservices IT sector. This has already resulted in several new features added to the Company’s technology offering, along with changes to the existing pricing model to increase competitiveness moving forward.

Since the appointment of Mr Blake Burton as Managing Director the Company has introduced a strong emphasis on cash management and cost reduction initiatives resulting in a 36% reduction in operating cash burn for the quarter compared to the Q2 FY22 quarter. The Company will continue to review costs and work towards reducing operating cash burn.

Acquisition of Attained:

During the quarter the Company announced on the 30 December 2022, the proposed acquisition of managed IT and cloud services provider, Attained Group Pty Ltd (**Attained**).

This acquisition represents an initial step towards building a unique technology offering, leveraging the Company's existing core assets and services within the broader cloud microservices IT sector. (ASX: 2 May 2022, 31 October and 14 December).

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.

Furthermore, Attained will enable the Company to expand its commercial footprint within Australia and other expanding markets it operates in, with a number of ASX listed and private clients who operate across Australia, UK, Asia and Europe.

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.

Attained will be acquired for a total consideration of ~\$2 million. The stock component of the acquisition will be issued at \$0.05/share, representing a ~43% premium to the Company's current share price at the date of the announcement on 30 December 2022.

The Company's managing director, Mr Blake Burton is a shareholder and director of Attained and the acquisition will be subject to shareholder approval. Under the terms of the acquisition Mr Burton will receive consideration shares and no cash consideration for his shareholding in Attained.

Subject to completion Attained CEO Paul Arch (non-related vendor) will join the DC Two executive team as COO, and Attained CTO Liam Gale (non-related vendor) will join as CIO. Paul Arch, with his extensive background in emerging technologies and leadership, has brought several successful opportunities to the Australian technology space in the past. Mr Arch was the founder of Datamate Backup Services as well as the DC West data centre in Perth. He played a key role in the founding of Attained, where he identified the emerging trend of service and infrastructure integration businesses.

As Chief Operating Officer for DC Two, Mr Arch will continue his dedication to helping clients achieve their goals through technology, building strong teams and fostering strong relationships. *"We are excited to join the DC Two team, and the opportunities it will bring for both staff and clients. With the many synergies*

across the businesses, it will allow us to further grow and continue to deliver the best possible services to the market.”

The General Meeting of Shareholders of the Company to vote on the acquisition of Attained, will be held at 27 Aspiration Circuit, Bibra Lake, 6163, on Thursday, 23 February 2023, at 12:30pm (AWST).

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, projected to reach USD 8 billion by 2026, according to Allied Market Research¹.

The Company intends to focus on critical technologies and services towards this goal, including a continuous assessment on non-critical divisions. The proposed acquisition of Attained represents a strong opportunity for growth in the second half of fiscal 2023.

Financial Summary:

The attached Appendix 4C provides details on the cashflows for the quarter ended 31 December 2022. As at 31 December 2022 the Company had a cash balance of \$836k. The Company’s net cash used in operating activities for the quarter amounted to \$415k and included expenditure on product manufacturing and operating costs (\$1m), advertising and marketing (\$21k), staff costs (\$356k), and administration & corporate costs including leased asset expenditure (\$165k). 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 \$26k 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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¹ <https://www.alliedmarketresearch.com/microservices-architecture-market>



YOUR CLOUD
YOUR WAY

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, along with 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.

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 Dec 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,178	2,499
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,005)	(1,923)
(c) advertising and marketing	(21)	(43)
(d) leased assets	(97)	(228)
(e) staff costs	(356)	(767)
(f) administration and corporate costs	(68)	(142)
(g) crypto mining expenditure ¹	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 ²	² (46)	² (46)
1.9 Net cash from / (used in) operating activities	(415)	(650)

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

² This relates to due diligence and independent expert report fees for the acquisition of Attained Group Pty Ltd as announced to the market on 30 December 2022. These costs will not be incurred on an on-going basis.

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(c) property, plant and equipment ³	³ (141)	³ (275)
(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	(141)	(275)

³ 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)	580	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	(8)	(8)
3.5 Proceeds from borrowings ⁴	-	⁴ 326
3.6 Repayment of borrowings	(207)	(358)
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	372	620
3.10 Net cash from / (used in) financing activities	737	1,160

⁴ Borrowings in the prior quarter relates to modular activities

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	655	601
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(415)	(650)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(141)	(275)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	737	1,160
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	836	836

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	836	601
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)	836	601

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**

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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 <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	384	384
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	1,683	1,683
7.4 Total financing facilities	2,067	2,067

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 \$236,250 and capitalised interest of \$147,506. 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. During the quarter, \$250,000 convertible notes converted at \$0.05.
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)	(415)
8.2 Cash and cash equivalents at quarter end (item 4.6)	836
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	836
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2.01

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: 31 January 2023

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.