

ASX Release

28 April 2022



Q3 FY22 QUARTERLY ACTIVITIES REPORT & APPENDIX 4C

DUG Technology Ltd (ASX: DUG) (“**DUG**” or the “**Company**”) is pleased to provide this update on activities and the Appendix 4C for the quarter ended 31 March 2022.

Highlights

- Total revenue from external customers during Q3 FY22 was US\$8.22 million, (FY22 YTD: US\$25.24 million)
- Underlying EBITDA for Q3 FY22 of US\$1.33 million, (FY22 YTD: US\$1.28 million) following a restructure of the Services business line in Q2 FY22
- The Company executed US\$8.9 million in new Services contracts during the quarter, a 584% increase on Q2 FY22, including US\$6.8 million of contract wins in March 2022
- Positive operating cash flow for Q3 FY22 of US\$2.26 million, (FY22 YTD: outflow of US\$0.95 million) with net investing cash outflows for Q3 FY22 of US\$0.30 million, (FY22 YTD: US\$1.17 million)
- Total cash held at 31 March 2022 was US\$11.78 million (31 December 2021: US\$11.16 million) with net debt (excluding AASB 16 leases) at 31 March 2022 of US\$0.32 million (31 December 2021: US\$1.539 million).

Operational update

DUG completed a restructure of its Services business line in Q2 FY22 which included a reduction of fixed costs and increased productivity per headcount. DUG won US\$8.9 million in new Services business line contracts in Q3 FY22 for the Services business line, an increase of 584% on Q2 FY22. This includes US\$6.8 million in contract wins for the month of March 2022, signifying a notable improvement in market conditions supporting an improved Q4 FY22 and into FY23.

The Company has launched a targeted sales and marketing campaign for its new technology solution, DUG Wave, a new Full Waveform Inversion (FWI) technology delivering seismic processing to its clients in a fraction of the current industry timeframes.

DUG’s High-Performance Computing (HPC) business line recently secured several new partnerships including with LatConnect 60 Pty Limited, an Australian smart satellite provider, to assist them to process high-resolution Earth observation analytics services at scale for government and commercial clients in the agriculture business.

Commenting on DUG’s recent operational performance, Managing Director Dr Matthew Lamont said “The recent contract wins in the Services business are timely with March being one of our largest awards months ever. When combined with our leaner cost base it indicates a returning strength to this business line. There is a lot of excitement internally about FWI Imaging technology, which we now need to demonstrate to clients on their data. New partnerships in our HPCaaS business line are very pleasing. All indications are that we are finally heading back to business conditions prevailing prior to the pandemic.”

Refinancing update

DUG's primary financing facilities are held with CBA and are due for repayment on 1 July 2022. As previously reported, DUG has engaged external advisers to support the Company in the refinancing of this debt position. Discussions are ongoing with the bank and the Company is confident of a resolution prior to the end of the financial year.

DUG had net debt of US\$0.32 million at 31 March 2022, including US\$12.0 million due to CBA.

Revenue and expenditure

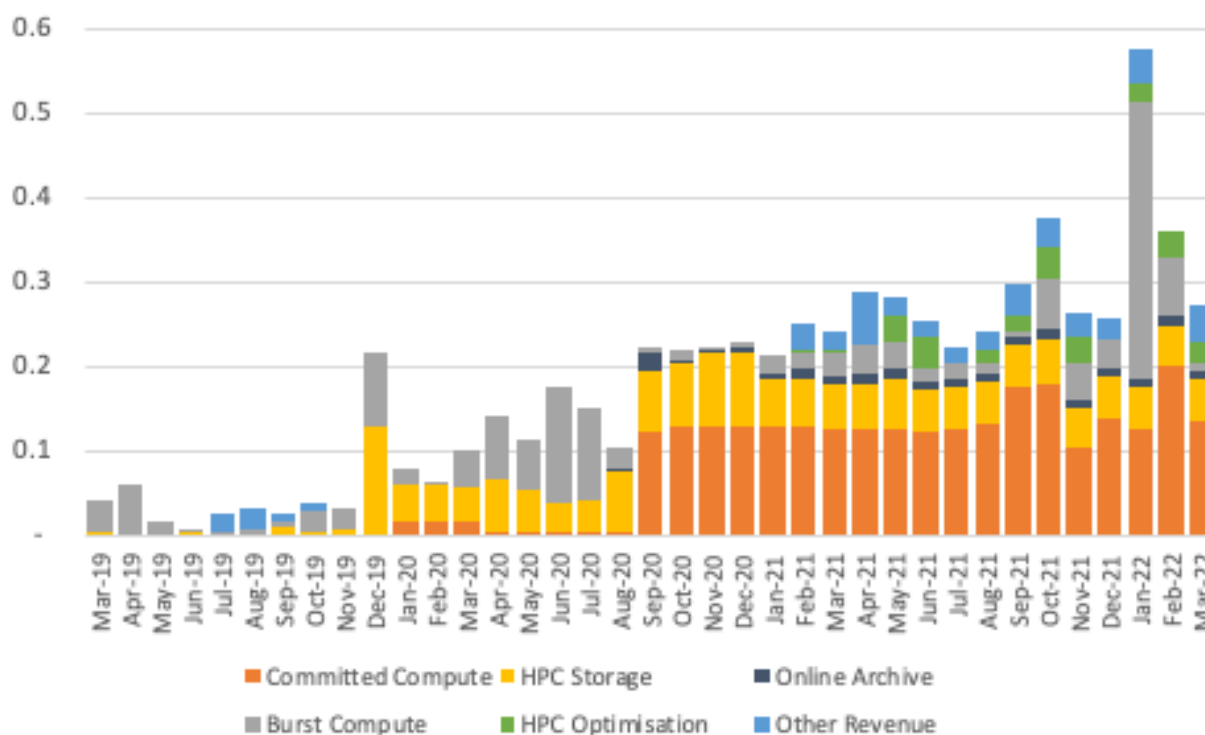
Total revenue earned from external customers was US\$8.22 million for Q3 FY22. The table below summarises the break-down of revenue across the Company's three business lines:

Business line	Q2 FY22 (US\$ million)	Q3 FY22 (US\$ million)	Variance Q2 to Q3 (%)	YTD FY22 (US\$ million)
Services	5.89	5.60	(4.9%)	18.03
Software	1.57	1.41	(10.2%)	4.32
HPCaaS	0.91	1.21	33.0%	2.89
	8.37	8.22	(1.8%)	25.24

DUG's services business line revenue softened in Q3 FY22 due to market conditions in oil and gas exploration at the turn of the calendar year. Wins secured in March 2022 support revenue for Q4 FY22 and into FY23.

The HPCaaS service line increased by 33% from Q2 FY22, supported by peak usage in January 2022 as shown in the below graph, which illustrates the growth trend in HPCaaS revenue, including the component of revenue from committed compute hours:

Third Party HPCaaS Revenue (US\$'000)



The strong performance of the HPCaaS business line during Q3 FY22 was driven by a significant project in January 2022 with one of DUG's major Services customers testing the new DUG Wave technology using burst compute hours.

Underlying EBITDA for Q3 FY22 was US\$1.33 million. Excluding redundancy costs and non-cash depreciation and amortisation, total operating expenditure during the quarter was US\$7.56 million (Q2 FY22: US\$8.94million). The largest component of operating expenditure is payroll and related expenditure, which for Q3 FY22 was US\$5.74 million (Q2 FY22: US\$6.40 million). This excluded the impact of additional once-off expenditure incurred in relation to staff redundancies of US\$0.09 million (Q2 FY22: US\$0.76 million).

Cash flow

The Company generated cash from operating activities of US\$2.26 million for Q3 FY22 (FY22 YTD: outflow of US\$0.95 million) – this includes interest payments of US\$0.27 million (FY22 YTD: US\$0.98 million). Included within net operating cash flows are non-recurring redundancy payments made during the quarter of US\$0.07 million (FY22 YTD: US\$1.01 million).

DUG expects to maintain net positive cash from operating activities for 2H FY22 as previously announced.

Capital expenditure of US\$0.25 million during Q3 FY22 (FY22 YTD: US\$1.02 million) is in line with the Company's traditional "just in time" approach to adding additional compute and storage capacity.

As at 31 March 2022, total cash held by the Company was US\$11.78 million, a net increase of US\$0.62 million compared to 31 December 2021.

Payments to related parties of the entity and their associates

The amount included in section 6.1 of the Appendix 4C comprises fees and salaries paid to directors of US\$160,678 and fees of US\$12,732 for consulting services paid to Comsen Solutions Pty Ltd, a company of which non-executive director Ms Louise Bower is a director.

This ASX Announcement has been approved for release by the Board of DUG Technology Ltd.

ENDS

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About DUG

DUG is an ASX listed technology company, headquartered in Australia, that specialises in analytical software development and reliable, green, high-performance computing (HPC). The company is built on a strong foundation of applied science and a history of converting research into practical, real-world solutions. DUG delivers innovative software products and cost-effective, cloud-based HPC as a service backed by bespoke support for technology onboarding. DUG's expertise in algorithm development and code optimisation enables clients to leverage big data and solve complex problems.

DUG is a global company with offices in Perth, London, Houston and Kuala Lumpur, supporting a diverse industrial client-base that includes radio-astronomy, biomedicine and meteorology, as well as the resource, government and education sectors. DUG designs, owns, and operates a network of some of the largest and greenest supercomputers on Earth. The company continues to invest and innovate at the forefront of software and HPC, working towards a climate-positive future.

To learn more, please visit www.dug.com.

Appendix 4C

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

Name of entity

DUG Technology Ltd

ABN

99 169 944 334

Quarter ended ("current quarter")

31 March 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,767	26,826
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,099)	(3,499)
(c) advertising and marketing	(121)	(601)
(d) leased assets	-	-
(e) staff costs	(5,472)	(19,666)
(f) administration and corporate costs	(587)	(1,991)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(267)	(982)
1.6 Income taxes received/(paid)	109	(18)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
Non recurring redundancy costs	(68)	(1,014)
1.9 Net cash from / (used in) operating activities	2,262	(945)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(250)	(1,019)
(d) investments	-	-
(e) intellectual property	(45)	(148)

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
(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	(295)	(1,167)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	12,377
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	-	(680)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(500)	(5,750)
3.7 Transaction costs related to loans and borrowings	(67)	(167)
3.8 Dividends paid	-	-
3.9 Repayment of leases	(585)	(1,688)
3.10 Other	4	12
3.11 Net cash from / (used in) financing activities	(1,148)	4,104

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	11,160	10,015
4.2 Net cash from / (used in) operating activities (item 1.9 above)	2,262	(945)

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

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(295)	(1,167)
4.4	Net cash from / (used in) financing activities (item 3.11 above)	(1,148)	4,104
4.5	Effect of movement in exchange rates on cash held	(201)	(229)
4.6	Cash and cash equivalents at end of period	11,778	11,778

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	11,778	11,160
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)	11,778	11,160

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(173)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<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>		

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<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>		
7.1 Loan facilities	19,055	12,807
7.2 Other (Premium Funding Loan)	83	83
7.3 Other (Bank Overdraft)	751	-
7.4 Total financing facilities	19,889	12,890
7.5 Unused financing facilities available at quarter end		6,999
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.		
<p>Commonwealth Bank of Australia:</p> <ol style="list-style-type: none"> 1. USD Term Debt: US\$12,055,000 <ol style="list-style-type: none"> a. Interest rate: LIBOR rate plus 3.75% Margin b. Maturity date: 1 July 2022 c. Secured or Unsecured: Secured 2. Revolving Facility: US\$7,000,000 <ol style="list-style-type: none"> a. Interest rate: LIBOR rate plus 2.95% Margin b. Maturity date: 1 July 2022 c. Secured or Unsecured: Secured 3. Multi Option Facility (comprising of an Overdraft Sub-Facility): US\$751,000 <ol style="list-style-type: none"> a. Interest rate Overdraft Sub-Facility: Overdraft index rate as quoted on the Financier's "Business banking rates and fees" website b. Maturity date: 1 July 2022 c. Secured or Unsecured: Secured <p>IQumulate Premium Funding - \$83,000</p> <ol style="list-style-type: none"> a. Interest rate: 3.514% b. Maturity date: 30 June 2022 c. Secured or Unsecured: Secured 		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	2,262
8.2 Cash and cash equivalents at quarter end (item 4.6)	11,778
8.3 Unused finance facilities available at quarter end (item 7.5)	6,999
8.4 Total available funding (item 8.2 + item 8.3)	18,777
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<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?

Answer:

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:

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:

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: 28 April 2022

The Board

Authorised by:
(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.