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30 October 2020

ASX Release

Pre-fabricated modular data centre specialist, DXN Ltd (ASX:DXN) is pleased to provide its quarterly report and Appendix 4C for the three months ended 30 September 2020 (1Q21).

Highlights

- Received Cash from customers for the Quarter of $1.06M (excluding a delayed payment of $650k from Southern Cross Cable Network received October 15)
- Signed modules contract with Newcrest Mining
- Signed Master Supply Agreement with Connected Farms for up to 15 Modules across Australia
- Signed contract with Complete Power Solutions (CPS) for supply of Modules for a large mining customer in Western Australia Pilbara region
- Secured a Debt facility from Export Finance Australia for $500k

Operating update

DXN is upbeat about an improved result for the full year. The strategic focus on Subsea Cables, Resources and EDGE opportunities is delivering results with a solid quarter of new customer contracts. Good examples of this new focus are the Newcrest Mining supply and installation of a prefabricated modular Data Centre in Cadia NSW for $1.5m. The securing of a number of additional contracts to the value of $560k including the supply of modules for CPS for a large mining company based in the Pilbara region of Western Australia. DXN also made headway into the Agritech sector by signing a Master Supply Agreement (MSA) with Connected Farms to supply fully engineered factory built prefabricated modular data centre for up to 15 sites across Australia.

The Southern Cross Cable Network modules factory build was completed on the 25 September and have now commenced shipping to their final destinations in the Pacific.

A $500k principal and interest facility was approved with Export Finance Australia and the company has the ability to draw against it at any time.

DXN has leased the Melbourne site at Port Melbourne for a short-term lease till March 2021 which is assisting in cash flow.

Events After the period

SX Next factory acceptance testing was completed in September and payment of $650k for the milestone completion was received on October 15. The delay in payment was due to key SX Next staff*'s delayed* travel to Perth due to Covid 19 restrictions.

We are pleased to welcome John Dimitropoulos to the board of DXN as an Independent Non-Executive Director on October 1. John brings to DXN a wealth of experience, especially his extensive M&A experience in the Telecom, Media and Technology sectors

Outlook

We are pleased with the start to FY21 despite the difficult trading environment brought on by Covid19. The focus for the team continues to be around customer sales in *both the modules and colocation business's.* DXN is having success and finding a way to progress and adapt in a changing environment and has secured some key wins as well as adapting to new ways of delivery for our modules business. We have a strong pipeline in our primary targeted sectors. One critical sector is Subsea Cable Operators that bring

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international internet traffic into countries, Another key sector is Resources – Australia*'s mining sector* has the most autonomous vehicles in the world and is reliant on IoT sensors. In addition,we have the emergence of Agritech which will follow the same path as the Resources and Mining sectors.

Growth for DXN will be further focused on developing our EDGE strategy for regional DC and a number of *opportunities are emerging to grow our portfolio of Data Centre's*

We have selected a new site for our modules manufacturing that has provided more capability and space as well as improving productivity with overhead cranes. The new site in Welshpool has a lower cost than our current site representing an annual saving to the business.

Company Financial and Corporate Overview

Total available funding at the end of the quarter was $2.5m.

DXN continues to progress its restructuring plans for the business as previously projected with a reduction in employment costs and an offset to the Melbourne facility lease costs. The ANZ facility is in negotiation and will likely be restructured post COVID 19 allowances which will further improve our cash position of the company.

The Company's cash outflow from operating activities this quarter was $897k per month and cash inflows totalled $353k per month (this was impacted by the delayed payment by SX Next of $650k).The Company is targeting a cash outflow of $858k per month to maintain its operations in the forthcoming quarter. This does not include any projected revenue amounts to be received which will offset this expenditure.

The aggregate amount of payments to related parties and their associates included in the current quarter totalled $34k. These payments consisted of Dir*ector's fees, salaries* and superannuation for non-executive directors. All payments were on normal commercial terms.

-ends-

About DXN Limited

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

Our business 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.
They are our:

1. Modular division – designs, engineers, manufactures, and deploys EDGE facilities and critical DC infrastructure
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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Appendix 4C

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

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Name of entity	
DXN Limited	
ABN	**Quarter ended ("current quarter")**
46 620 888 548	30 September 2020

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	1,060	1,060
1.2	Payments for		
	(a) research and development		
	(b) product manufacturing and operating costs	(1,054)	(1,054)
	(c) advertising and marketing	(4)	(4)
	(d) leased assets	(613)	(613)
	(e) staff costs	(939)	(939)
	(f) administration and corporate costs	(396)	(396)
1.3	Dividends received (see note 3)		
1.4	Interest received	7	7
1.5	Interest and other costs of finance paid	(15)	(15)
1.6	Income taxes paid		
1.7	Government grants and tax incentives	279	279
1.8	Other (provide details if material)	43	43
1.9	**Net cash from / (used in) operating activities**	**(1,632)**	**(1,632)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment	(17)	(17)
	(d) investments		
	(e) intellectual property	(17)	(17)
	(f) other non-current assets		

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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 (Refund of bank guarantees)	(28)	(28)
2.6	**Net cash from / (used in) investing activities**	**(62)**	**(62)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	205	205
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	(2)	(2)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(41)	(41)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**162**	**162**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	3,592	3,592
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,632)	(1,632)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(62)	(62)

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)	162	162
4.5	Effect of movement in exchange rates on cash held		
4.6	**Cash and cash equivalents at end of period**	**2,060**	**2,060**

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	1,428	1,109
5.2	Call deposits	632	2,483
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)**	**2,060**	**3,592**

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	31
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

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

*Includes director's fee*s, salaries and superannuation for non executive directors.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	5,700	3,345
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	5,700	3,345

7.5	**Unused financing facilities available at quarter end**	2,355

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.

1. A $5 million secured principal and interest Chattel Finance Facility with ANZ Bank to finance generators, chillers and battery/power supply equipment. The interest rate is 4.77% pa.

2. A $200,000 secured principal and interest Chattel Finance Facility with the ANZ Bank to finance various vehicles. The interest rate is 4.77% pa.

Security

- Specific Commercial Agreement (Fixed Charge) – Cash Deposits with ANZ of $2m given by the Company; and
- General Security Agreement (Fixed & Floating Charge) over the assets of the Company.

Conditions & Covenants

- Provision of semi-annual Financial Statements within 30 days of the end of each financial half year;
- The Adjusted Gearing Ratio for each financial half year of the Company will not be greater than 1:1.
- Adjusted Gearing Ratio is calculated as (Total Liabilities - Non-Current Subordinated Debt) divided by (Tangible Net Worth + Non-Current Subordinated Debt)

3. A $500,000 secured Principal and Interest Facility with Export Australia. The interest rate is 6.55% pa, which is currently undrawn.

Security

- General security agreement over the assets of the company

Conditions & Covenants

- Undertaking that the proceeds will not be used to finance a transaction whose dominant purpose is direct investment outside Australia
- *A review event is triggered if the company's shares cease to be traded on the ASX.*

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8.	Estimated cash available for future operating activities	$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,632)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	2,060
8.3	Unused finance facilities available at quarter end (Item 7.5) *	500
8.4	Total available funding (Item 8.2 + Item 8.3)	2,560
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	1.6

* Note – Only the $500,00 Export Finance facility is shown as unused facility available due to restrictions on the ANZ facility.

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?

Answer:

The company expects net cash outflows to reduce through the next 2 quarters as a result of the following;

- Receipts from customers currently under contract over the next 2 quarters is expected to be in the range of $2.6 million to $3.5 million. This large range is due to potential travel delays caused by Covid-19, which may delay some milestone payments by up to a month.
- The company expects to receive an R&D grant of approximately $700,000 during the next quarter.

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: Yes;

- A $500,000 principal and interest facility was approved with Export Finance Australia during the quarter. At the end of September, this facility remained available to the company to draw against.

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: Yes, the Company expects to be able to continue its operations and to meet its business objectives based on the responses to items 1 and 2 above. The sources of cash receipts identified in point 1 along with the facility provided by Export Finance are expected to fund net operating cash flows. Beyond this, the Company also has confidence it can raise further funds from the market, if required.

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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: 30 October 2020.....

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.

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