

ASX ANNOUNCEMENT 29 JULY 2021

JUNE 2021 QUARTERLY REPORT

HIGHLIGHTS

- ✖ Receipts jump by 178% QoQ to \$738k in the June 2021 quarter to help deliver positive operating cash flow for the quarter
- ✖ Unaudited quarterly revenue of \$8.7m (1,122% QoQ increase) including recognition of revenue from previous advisory services¹
- ✖ A strong quarter-end liquid assets position of \$33m
- ✖ DigitalX makes a strategic investment of \$750k into the digital asset funds market during May and June price drawdown
- ✖ Consortium for the Digital Finance Cooperative Research Centre successfully bids to secure federal government grant funding commitment of \$60m
- ✖ Drawbridge applies for ASIC RegTech government innovation funding grant

DigitalX Limited (ASX:DCC, 'DigitalX' or 'the Company') is pleased to provide its Appendix 4C cash flow statement for the quarter ended 30 June 2021 along with the following operational update.

QUARTERLY OVERVIEW

A. Summary of Working Capital Position

DigitalX had cash, listed digital assets and liquid unlisted investments of over AU\$33m in value as at 30 June 2021.^{1,4}

Name	Value (\$AUD)
Australian Dollars	\$10,019,975
Bitcoin ²	\$10,096,384
Fund units ³	\$12,529,144
Other liquid investments ⁴	\$382,098
Total	AUD\$33,027,601

¹ Since the end of the quarter, the Bitcoin price has increased to USD\$39,859 at the date of this report.

² Total Bitcoin in treasury at 30 June 2021 was 215.95.

³ Includes total units in the DigitalX BTC Fund and DigitalX Fund based on the respective NAV at 30 June 2021.

⁴ Total excludes amounts for tokens pending listing and/or for which an active market is not observable. This also excludes the expected receipt of the tokens to be received from Human Protocol Foundation [announced](#) on 29 June 2021.

⁵ USD/AUD spot rate at the quarter ended 30 June 2021 was \$1.33419

¹ Refer to ASX [announcement](#) dated 29 June 2021

Liquid asset level still strong despite digital asset market pull back

Liquid assets for the period decreased by a total of \$13.4m, down 28% from the March 2021 quarter to \$33m. The decrease was attributable to a pull back in the digital asset market after the peak in May 2021 with Bitcoin down 39% over the quarter.

Despite the volatility seen in digital asset markets, DigitalX reported a net operating cash inflow for the quarter of \$36k, with receipts of \$738k. This bettered the operating cash outflow for the prior quarter of \$387k.

Cash receipts for the June quarter of \$738k were well in excess of the \$265k reported in the prior quarter, primarily due to receipt of the March quarterly fees from the Funds Management division.

Overall cash expenditure for the June quarter was 12% higher at \$738k (March quarter: \$658k). The primary driver behind this increase were higher staff costs with several new team members joining the product, corporate and funds management teams over the quarter. The Company also notes that the 12-month deferral of the cash Directors' fees ceased at the end of March.

Expenditure incurred during the quarter was comprised predominantly of:

- Staff costs of \$358k which represents an increase of \$151k on the prior quarter. This rise was attributable to a number of factors including:
 - Additional team members across the product, corporate and Funds Management teams to support the strategic update completed in the prior quarter;
 - One additional pay run cycle compared to the prior quarter;
 - Cash fees for Executive and Non-Executive Directors recommencing after a 12-month deferral finished at the end of March; and
 - Period end payroll obligations.
- Administration and corporate costs of \$198k, down \$95k on the prior quarter. A number of factors contributed to this decline including the timing of payments and higher charges in the prior quarter for office rental and costs associated with the capital raising.
- Professional fees of \$113k, up on prior quarter level of \$82k primarily due to compliance costs associated with the Group's year-end reporting obligations and professional fees related to external advice and implementation on the commercialisation of Drawbridge.
- Marketing costs of \$69k, slightly below the prior quarter level of \$76k, as DigitalX continued to focus on the accelerated marketing of its Funds Management and governance products.

In addition to the operating cash flows noted above, the Group incurred investing expenditure of \$140k for the quarter related to the development of the Drawbridge application and \$750k for the additional investment into the DigitalX fund (as [previously announced](#) to the market).

In accordance with ASX Listing Rule 4.7C.3, \$94k was paid to related parties or their associates during the quarter, (up on the prior quarter level of \$50k), comprising Executive Director salary & superannuation, Non-Executive Director superannuation, and legal fees paid to Steinepreis Paganin (of which DigitalX Chair Mr. Hicks is a Partner).

B. Business Activities

Overview

DigitalX has been continuing to execute its corporate strategy in creating solutions at the intersection of finance and technology, to provide shareholders with exposure to both the value uplift from the technology and the price appreciation of the new digital asset class, utilising its team experience in the assessment of new technologies and the investment and development of those technologies.

In addition to these core activities, the Company's management team continued to drive additional value for shareholders within the blockchain industry through initiatives that included:

- Managing off balance sheet assets such as Human Protocol, which has now moved to a contract asset.
- Establishing innovative funding opportunities for the Company including the Digital Finance CRC and the RegTech innovation grant application.
- Treasury planning to secure risk managed revenues by accessing yields from digital assets held on the Company's balance sheet.

DIGITALX ASSET FUNDS MANAGEMENT

DigitalX is the investment manager of digital asset investment products that provide qualified investors with a secure and traditional method to invest into the digital asset sector. The Company operates two professionally managed wholesale funds, the DigitalX Bitcoin Fund and the Digital Asset Fund, a diversified basket of leading digital assets. The DigitalX digital asset funds solve the technical and administrative challenges of investing in this emerging asset class. The business had funds under management of \$22.14m at the end of the June 2021 quarter.

Despite a weaker price period in the market, which saw the Bitcoin market decline by 38.5%², the funds management team was pleased to see strong retention of the fund investor base. In addition to the strong retention of fund investors, the funds saw inflows of \$2.86m, of which DigitalX directly contributed \$750k during May and June. The Company saw the short-term drawdown as representing a strategic opportunity to utilise funds from the recent capital raise to accelerate the growth of the Digital Asset Fund.

Despite an overall softer period for the digital asset market, the DigitalX Bitcoin Fund and the DigitalX Fund saw impressive 12-month gains (net of fees) of 253.99% and 387.20% respectively. The DigitalX Fund achieved superior returns over the Eureka Crypto Hedge Fund (ECHF) Index despite having a lower-risk mega-cap, liquid investment strategy. The DigitalX Fund has now seen outperformance during both bear and bull market periods and has out-performed more traditional asset classes by a significant margin since inception.

The Funds Management team recently appointed Mr Alex Nagorskii as its new operations executive. Mr Nagorskii has both traditional funds management experience as well as digital asset market expertise. This includes five years' experience in wealth management and funds governance with a leading multinational investment bank.

² Quarterly DigitalX Bitcoin Fund unit price decline

DRAWBRIDGE REGTECH SOLUTION

DigitalX's mission with Drawbridge is to help executives of publicly listed companies build trust and improve reliability in how their organisation is governed, through the use of new technologies that enhance the standard of systems and processes needed for achieving good governance outcomes. The vision for Drawbridge is to become the digital governance standard for the world's 630,000 publicly listed companies.

As a first step in pursuit of this vision, the Company has continued its focus on supporting other listed companies to transition away from manual and error prone processes typically used to manage insider trading risks through their securities trading policies, which all listed companies are required to have in place. There have been numerous securities trading policy breaches by companies on the ASX over the last 12 months, with incidents that include company directors trading during restricted dates before an announcement. Drawbridge's Securities Trading Policy solution has undergone continued development during the quarter to further enable companies to reduce the risk of policy breaches, by digitising their trade approval process using distributed ledger technologies that are set to be adopted by major securities exchanges.

The Company's strategy has been to take a customer centric approach to growing Drawbridge's adoption and uncovering the highest value features for further development in order to meaningfully scale the business for DigitalX shareholders. During the quarter the Company has engaged with over 30 ASX-listed companies through activities such as sponsorship of the Governance Institute of Australia's Governance and Risk Management Forum in Perth and a demonstration of Drawbridge to attendees, industry luncheons for governance practitioners, email campaigns with access to a Drawbridge case study to over 4,000 governance professionals, and 170 new inbound email leads per month through the creation of a Volume Weighted Average Price ('VWAP') calculation service primarily used for pricing of corporate actions. These activities have helped build valuable relationships by engaging directly with Company Secretaries, General Counsel, and CFOs with oversight of their Securities Trading Policy and broader company governance.

Feedback from these prospective customers has been positive with clear demand for a solution from the majority of companies that manually manage approvals under their Securities Trading Policy. While demand is evident, we have used this initial period to validate and refine the initial pricing strategy to find the optimal structure for reaching the level of market acceptance needed to convert these proposals to paid clients. Our conversations with prospective customers has led to the identification of additional market opportunities for the product to provide greater value, such as a dedicated facility for employees to trade shares post compliance approval, and a system for managing the vesting information of securities based performance incentives.

With this new market evidence in mind, the Company has worked during the quarter to update Drawbridge's strategy. The updated strategy is to broaden Drawbridge's product offering to provide end-to-end internal trading compliance right through from share issuance, to policy approval, to trade execution. The Securities Trading Policy app will be offered at a reduced price point in order to encourage greater adoption by listed companies, which can ultimately support a transactional based revenue model through the facilitation of employee share trading. In support of this, the Company has been pursuing potential bolt-on acquisitions of existing businesses that would provide trade execution capabilities.

Successful Federal Government funding commitment of \$60M for Digital Finance CRC

As previously announced in the December 2020 Quarterly Report, the Company supported a joint proposal to the Australian Federal Government for funding for a Cooperative Research Centre ('CRC') seeking to undertake vital, long-term, collaborative research on the emerging digital finance sector. In addition to DigitalX, the Digital Finance CRC bid was supported by partners that include major retail and central banks, global financial markets technology companies, and Australian universities.

The Digital Finance CRC announced during the June quarter that it had been successful in securing \$60m in Federal Government funding. The scope of the Company's involvement in driving digital finance projects within the CRC is set to be finalised over the coming months as the CRC completes its planned establishment activities. Formal CRC partner agreements are expected to be finalised in October, with an operational launch scheduled to commence in early 2022 for the ten-year life of the CRC. The Company is excited by the opportunities presented through the CRC, some of which have been outlined by news media during the quarter through articles such as ***Australia set to unlock a \$32T tokenisation wave*** as featured in the AFR³.

Drawbridge application for ASIC RegTech Government Innovation Funding

During the June 2021 quarter DigitalX submitted a plan to extend Drawbridge's capabilities in applying for grant funding in response to the RegTech challenge from the Australian Securities Investment Commission (ASIC) through the Business Research and Innovation Initiative (BRII). ASIC's BRII challenge seeks to establish an innovative technology solution to analyse market announcements (and other corporate disclosures) by listed companies and entities to help identify and assess poor market disclosure.

The BRII provides grant funding between \$50 -100k to complete a feasibility study into how new technologies can be applied to solve challenges faced by the government in policy and service delivery areas. On completion of the feasibility study, grantees may apply for further funding of up to \$1m for progression to a proof-of-concept stage.

DigitalX's proposal outlined a plan to assess the feasibility of creating a software solution that combines data from ASX announcements, share prices and volumes, news, and social media for analysis in automating the identification of instances of poor disclosure at scale for both regulators and listed companies. If successful, the project team would be led by DigitalX Ltd, with letters of support from the University of Western Australia as well as the ASX through their DLT Solutions team. We expect to receive a decision on the outcome in the coming months.

BAM and xbullion

Bullion Asset Management Services Pte Ltd ('BAM') is a Singaporean bullion and digital asset business. DigitalX is a 17.5% shareholder of BAM, with BAM also being a core client of DigitalX as the lead developer of their flagship xbullion product, a gold bullion backed digital asset.

xbullion digital gold launched on a leading digital asset exchange and saw an immediate increase in trading volumes which pushed total xbullion sales to over \$2m. In addition to the creation of xbullion, DigitalX

³ <https://www.afr.com/technology/australia-readies-to-ride-32trn-tokenisation-wave-20210701-p585ya>

provided technical development services to BAM during the quarter to build smart contracts for a silver bullion backed digital asset and digital AUD products.

The recent sales success of xbullion lead to BAM receiving further investment commitments from leading digital asset investment firms including Cadenza Capital Management.

C. Corporate Activities

Over the course of the last 12 months the Company has continually investigated ways to monetise its existing digital asset reserve holdings in order to generate a return for shareholders in a safe, secure and risk managed way. During the June 2021 quarter, the Company continued to progress this strategy with activities including the assessment of digital asset exchange infrastructure tools to enable the safe and secure transfer of assets between providers, and a number of digital asset exchange providers with the view to storing assets on exchange in order to generate a yield. The Company expects the first returns from this strategy to be received next quarter.

The Company also issued 2,500,000 ordinary shares to employees and 503,816 shares to Directors during the June 2021 quarter in lieu of director fees.

D. Outlook

DigitalX Non-Executive Chair Toby Hicks said: *“DigitalX has been taking a systematic and deliberate approach to the growth of the Company’s business over the last 18 months. It is pleasing to see a result like this over the last quarter, as recognition of the work done by the whole team. Importantly operating in a cashflow positive manner despite growth in expenses associated with adding new team members. In addition, despite volatility in digital asset markets, we experienced strong investor retention in our funds and fund inflows of \$2.86m. Reflective of our confidence in the long term future and legitimacy of the broader digital asset segment as an asset class, we directly contributed \$750k to these funds during May and June.*

We are also proud to be working with other leading organisations and contributing to efforts by Australian regulators to understand the ramifications of digital financing via our involvement in the Digital Finance CRC, which recently secured \$60m in Federal Government funding. The ongoing progress made to evolve our Drawbridge RegTech product and Australian authorities’ recognition of the role RegTech will play in the country’s financial sector regulatory environment over the years ahead also gives us ongoing cause for optimism in the role DigitalX can play as a leader in the future of regulation.

The past 12 months has seen DigitalX enhance its position within this emerging technology and investment sector, with solid progress made in evolving both its digital asset funds management business and its suite of RegTech products. We are confident the Company will further develop and grow over its FY22 as it takes advantage of the growth opportunities now presenting.”

- Ends-

Authorised by the Board of DigitalX Limited.

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About DigitalX

DigitalX Limited (ASX: DCC) is a technology and investment company focused on blockchain product development and digital asset funds management. DigitalX's product division designs and develops blockchain and RegTech applications for business and enterprise organizations. Through its asset management division, DigitalX provides low-cost traditional asset management products for qualified investors looking to gain exposure to the growing alternative asset class of digital assets, including Bitcoin. DigitalX is currently commercialising Drawbridge, the Company's first RegTech solution that supports listed companies in better managing their compliance and corporate governance policies. With Drawbridge, companies can manage employee and director share trading approvals in order to safeguard their reputations.

www.digitalx.com | www.digitalx.fund | www.opendrawbridge.io

APPENDIX 4C

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

Name of entity

DigitalX Limited

ABN

59 009 575 035

Quarter ended ("current quarter")

30 June 2021

Consolidated statement of cash flows	Current quarter \$AUD'000	Year to date (12 months) \$AUD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	738	1,268
1.2 Payments for		
(a) research and development	-	-
(b) advertising and marketing	(69)	(176)
(c) leased assets	-	-
(d) staff costs	(358)	(976)
(e) administration and corporate costs	(198)	(1,140)
(f) professional fees	(113)	(268)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	36	61
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	115
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	36	(1,116)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(10)	(18)
(d) investments	(750)	(1,072)
(e) intellectual property	(140)	(283)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$AUD'000	Year to date (12 months) \$AUD'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	(900)	(1,373)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	8,817
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	337
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(36)	(843)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
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	(36)	8,311

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	10,921	4,059
4.2	Net cash from / (used in) operating activities (item 1.9 above)	36	(1,116)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(900)	(1,373)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(36)	8,311

Consolidated statement of cash flows		Current quarter \$AUD'000	Year to date (12 months) \$AUD'000
4.5	Effect of movement in exchange rates on cash held	(1)	139
4.6	Cash and cash equivalents at end of period¹	10,020	10,020

Note 1: At the date of this report, the Group also holds Bitcoin, listed digital assets and other unlisted investments not included above but which are considered to be highly liquid and can be converted into cash when required as set out on page 1 of the Quarterly Activities Report.

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 \$AUD'000	Previous quarter \$AUD'000
5.1	Bank balances	10,020	10,921
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)	10,020	10,921

6.	Payments to related parties of the entity and their associates	Current quarter \$AUD'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 ²	94
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note 2: Amounts paid to related parties includes Executive Director salary and superannuation, Non-Executive Director superannuation, and legal fees.

7.	Financing facilities <i>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.</i>	Total facility amount at quarter end \$AUD'000	Amount drawn at quarter end \$AUD'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-

7.5 Unused financing facilities available at quarter end

-

7.6 Description of facilities

-

8.	Estimated cash available for future operating activities	\$AUD'000
8.1	Net cash from / (used in) operating activities (item 1.9)	36
8.2	Cash and cash equivalents at quarter end (item 4.6)	10,020
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	10,020
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A

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

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: Not applicable

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: Not applicable

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: Not applicable

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: 29 July 2021 Authorised
by: Board of DigitalX Limited

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.