Aggregated Group of X2M Connect Limited Subsidiaries

Aggregated Financial Statements - 30 June 2020

Aggregated Group of X2M Connect Limited Subsidiaries
Contents
30 June 2020

General information

The special purpose financial statements cover the group of companies referred to below (collectively the "Aggregated Group") for the purposes of presenting an aggregated performance and position of the subsidiaries of X2M Connect Limited (formerly X2M Connect Pty Ltd, as at 30 June 2020), which were acquired from Freestyle Technology Limited on 26 February 2020.

The Aggregated Group consists of the following companies:

Freestyle Energy Two Pty Ltd
Freestyle Technology Taiwan Limited
Freestyle Technology Co., Ltd*
Golden Sino Hong Kong Limited
Freestyle Technology (Shanghai) Co., Ltd
Freestyle Technology Japan KK
Beijing Freestyle Technology Co., Ltd - incorporated on 29 April 2020 (non-trading at 30 June 2020)

*South Korean operations

These special purpose financial statements have been prepared to meet the needs of X2M Connect Limited.

The financial statements are presented in Australian dollars.

Aggregated Group of X2M Connect Limited Subsidiaries
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Aggregated 2020 $	2019 $
Revenue	3	2,880,469	2,229,716
Interest revenue		141	272
Net gain recognised on forgiveness of related party loans from Freestyle Technology Limited	15	12,181,434	-
Total revenue and other income		15,062,044	2,229,988
Expenses			
Cost of sales		(1,802,353)	(967,830)
Employee benefits expenses		(2,181,214)	(2,059,105)
Depreciation and amortisation expense		(814,326)	(802,546)
Telephone expenses		(103,734)	(90,012)
Short-term lease expenses		(185,292)	(110,235)
Other expenses		(528,246)	(946,658)
Professional fees		(518,889)	(540,207)
Finance costs		(55,934)	(308,267)
Total expenses		(6,189,988)	(5,824,860)
Profit/(loss) before income tax expense		8,872,056	(3,594,872)
Income tax expense	5	-	(915)
Profit/(loss) after income tax expense for the year attributable to the owners of Aggregated Group of X2M Connect Limited Subsidiaries		8,872,056	(3,595,787)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(327,823)	32,238
Other comprehensive income/(loss) for the year, net of tax		(327,823)	32,238
Total comprehensive income/(loss) for the year attributable to the owners of Aggregated Group of X2M Connect Limited Subsidiaries		8,544,233	(3,563,549)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Aggregated Group of X2M Connect Limited Subsidiaries
Statement of financial position
As at 30 June 2020

	Note	Aggregated 2020 $	Aggregated 2019 $
Assets			
Current assets			
Cash and cash equivalents	6	111,862	158,673
Trade and other receivables	7	320,870	192,227
Contract assets	8	404,881	1,218,597
Inventories	9	254,566	42,803
Other assets	10	241,300	242,702
Total current assets		1,333,479	1,855,002
Non-current assets			
Property, plant and equipment and right-of-use assets	11	1,306,670	1,981,263
Intangible assets	12	-	-
Other assets	10	256,118	141,344
Total non-current assets		1,562,788	2,122,607
Total assets		2,896,267	3,977,609
Liabilities			
Current liabilities			
Trade and other payables	13	626,688	662,426
Contract liabilities	14	7,798	2,189
Borrowings	15	1,017,123	10,762,746
Lease liabilities	16	62,943	-
Employee benefits	17	92,398	57,867
Provisions	18	87,847	81,412
Total current liabilities		1,894,797	11,566,640
Non-current liabilities			
Lease liabilities	16	64,273	-
Employee benefits	17	191,353	120,110
Provisions	18	-	89,248
Total non-current liabilities		255,626	209,358
Total liabilities		2,150,423	11,775,998
Net assets/(liabilities)		745,844	(7,798,389)
Equity			
Issued capital		13,358,517	13,358,517
Foreign exchange reserve		(808,890)	(481,067)
Accumulated losses		(11,803,783)	(20,675,839)
Total equity/(deficiency)		745,844	(7,798,389)

The above statement of financial position should be read in conjunction with the accompanying notes

Aggregated Group of X2M Connect Limited Subsidiaries
Statement of changes in equity
For the year ended 30 June 2020

Aggregated	Issued capital $	Foreign currency reserve $	Accumulated losses $	Total deficiency in equity $
Balance at 1 July 2018	13,358,517	(513,305)	(17,080,052)	(4,234,840)
Loss after income tax expense for the year	-	-	(3,595,787)	(3,595,787)
Other comprehensive income for the year, net of tax	-	32,238	-	32,238
Total comprehensive income/(loss) for the year	-	32,238	(3,595,787)	(3,563,549)
Balance at 30 June 2019	13,358,517	(481,067)	(20,675,839)	(7,798,389)

Aggregated	Issued capital $	Foreign currency reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2019	13,358,517	(481,067)	(20,675,839)	(7,798,389)
Profit after income tax expense for the year	-	-	8,872,056	8,872,056
Other comprehensive loss for the year, net of tax	-	(327,823)	-	(327,823)
Total comprehensive income/(loss) for the year	-	(327,823)	8,872,056	8,544,233
Balance at 30 June 2020	13,358,517	(808,890)	(11,803,783)	745,844

The above statement of changes in equity should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The Aggregated Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Aggregated Group.

The following Accounting Standards and Interpretations are most relevant to the Aggregated Group:

AASB 16 Leases
The Aggregated Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The application date of AASB 16 for the Aggregated Group is 1 July 2019, using the modified retrospective approach option 2.

The Aggregated Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

In applying AASB 16 for the first time, the Aggregated Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous lease contracts as at 1 July 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Applying the above practical expedients, there was no impact as at 1 July 2019 on the adoption of AASB 16.

Going concern
The financial report has been prepared on a going concern basis. This contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

On 26 February 2020 the Aggregated Group of companies were acquired by X2M Connect Limited from Freestyle Technology Limited.

For the year ended 30 June 2020, the Aggregated Group reported a net loss, excluding the net gain recognised on forgiveness of related party loans from Freestyle Technology Limited, of $3,309,378 (2019: $3,595,787) and as at 30 June 2020 the Aggregated Group had a working capital deficiency, being current assets less current liabilities, of $561,318 (2019: $9,711,638).

Note 1. Significant accounting policies (continued)

At the time of this report, X2M Connect Limited is undertaking an IPO process to list on the Australian Stock Exchange.

In determining that the going concern assumption is appropriate, the Directors of X2M Connect Limited have prepared cash flow projections for the wider X2M Connect Group, being X2M Connect Limited and the Aggregated Group for the period until 30 June 2022. These cash flow projections support the Aggregated Group's ability to continue as a going concern. These cash flow projections assume the wider X2M Connect Group's ability to achieve sales, control expenditures and successful completion of the IPO process in the second half of the 2021 calendar year.

The Aggregated Group is dependent on X2M Connect Limited to provide ongoing support and funding. At the date of this report, the Directors of X2M Connect Limited confirm that they will continue to provide ongoing support and funding to enable the Aggregated Group to continue to operate as a going concern.

The ability of the wider X2M Connect Group to continue as a going concern is critically dependent upon achieving much or all of the following over the forecast period:

- Completion of an initial public offering (raising at least $6m) in the second half of the 2021 calendar year;
- Approval and receipt of research and development grants held by X2M Connect Limited of approximately $0.8m from the Government of Australia in October 2021;
- Prudent management of costs throughout the forecast period, and adherence to the projected cash flow budget, including the ability control expenditures in line with cash resources available; and
- Further achievement of sales through commercialisation activities.

In the event that the above capital raisings or exit events do not eventuate, or cash flow forecasts are not achieved thereby impacting the wider X2M Connect Group's ability to continue as a going concern, assets of the Aggregated Group may not be realised and liabilities of the Aggregated Group may not be settled at amounts stated in the financial statements. Consequently, a material uncertainty exists that may cast significant doubt on the Aggregated Group's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Aggregated Group not continue as a going concern.

Basis of preparation
The financial statements have been prepared in accordance with the recognition and measurement requirements specified by all Australian Accounting Standards Board Standards and Interpretations, other than AASB 10 Consolidated Financial Statements which these financial statements cannot comply with as the financial statements represent an aggregation and not a consolidation and AASB 107 Statement of Cash Flows.

Principles of aggregation
The financial performance and position of the individual companies within the Aggregated Group have been aggregated. The aggregation does not have a parent entity as no one agency dominates decision making or has control. Any balances and transactions between the companies within the Aggregated Group have been eliminated.

Consistency of accounting policies
The accounting policies included in the notes to the financial statements have been consistently applied, unless otherwise stated.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value.

Critical accounting estimates and judgments
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Aggregated Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Note 1. Significant accounting policies (continued)

Foreign currency translation
The financial statements are presented in Australian dollars.

Foreign currency transactions
Transactions in foreign currencies are translated into Australian dollars at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into Australian dollars at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Aggregated Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Aggregated Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Impairment of financial assets
The Aggregated Group recognises a loss allowance for expected credit losses on financial assets which are measured at amortised cost. The measurement of the loss allowance depends upon the Aggregated Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

The loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Impairment of non-financial assets
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Issued capital
Issued capital comprises ordinary shares issued in the companies within the Aggregated Group. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Significant accounting policies (continued)

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the tax authority.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Aggregated Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Aggregated Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Aggregated Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Fair value measurement hierarchy
The Aggregated Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The Aggregated Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Aggregated Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Employee benefits provision
As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Onerous contracts
A provision has been made for onerous contracts. The provision is calculated based on an estimate of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The estimate of expected net cost of continuing with the contract is based on the Aggregated Group's experience with the delivery of similar products and services.

Note 3. Revenue

The Aggregated Group generates revenue from the provision of technology to enable internet connectivity for traditionally non internet-enabled physical devices and everyday objects.

In the following table, revenue from contracts with customers is disaggregated by key product/service lines, and the timing of revenue recognition.

	Aggregated	
	2020	**2019**
	$	**$**
Platform subscriptions revenue - over time	1,309,394	1,109,505
Hardware sales - point in time	1,571,075	241,204
Proof of concepts and development services revenue - point in time	-	879,007
Revenue	2,880,469	2,229,716

Note 3. Revenue (continued)

Accounting policy for revenue recognition
The Aggregated Group recognises revenue as follows:

Revenue from contracts with customers
Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration the Group is entitled to, excluding sales taxes, rebates, and trade discounts. The Group enters into sales transactions involving an outright sale to the client, on a subscription basis or for the rendering of services.

The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

To determine whether to recognise revenue, the Group follows a five-step process:
1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

When the Group enters into transactions involving its products and services, the total transaction price for a contract is allocated amongst the various performance obligations.

Revenue is recognised either at a point in time or over time, when the Group satisfies performance obligations by transferring the promised goods or services to customers.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers and the related revenue recognition policies.

Type of product/service	Nature and timing of satisfaction of performance obligations
Platform subscription revenue	The nature and timing of revenue recognition can differ between customers based on the deliverables and pricing of each customer's contract. Where a contract provides pricing for licence/subscription fees, revenue is recognised over the service period following the completion of hardware being installed.
Hardware sales	Hardware sales are recognised at a point in time when the Group has transferred to the buyer control of the goods and where there is no unfulfilled obligation that could affect the buyer's acceptance of the goods. The timing of the transfer of control varies depending on the individual terms of the sales agreement. The transfer usually occurs once the units of hardware are installed.
Proof of concepts and development service revenue	Where a contract requires the completion of milestones related to proof of concept and development service revenue, revenue is recognised when the objectives of the milestones are achieved.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Note 3. Revenue (continued)

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established, when the revenue does not give rise to an obligation.

Note 4. Operating segments

Operating segment information

Aggregated - 2020	South Korea $	Taiwan $	Japan* $	Other segments $	Total $
Revenue					
Segment revenue	2,683,055	186,100	11,451	4	2,880,610
Net gain recognised on forgiveness of related party loans	7,029,147	5,037,955	-	114,332	12,181,434
Total revenue	9,712,202	5,224,055	11,451	114,336	15,062,044
Assets					
Segment assets	2,534,794	305,389	54,793	1,291	2,896,267
Total assets					2,896,267
Liabilities					
Segment liabilities	1,596,403	368,447	194,415	(8,842)	2,150,423
Total liabilities					2,150,423

Aggregated - 2019	South Korea $	Taiwan $	Japan* $	Other segments $	Total $
Revenue					
Segment revenue	1,457,788	270,837	501,347	16	2,229,988
Total revenue	1,457,788	270,837	501,347	16	2,229,988
Assets					
Segment assets	3,277,746	326,897	368,477	4,489	3,977,609
Total assets					3,977,609
Liabilities					
Segment liabilities	7,294,955	4,277,746	75,784	127,513	11,775,998
Total liabilities					11,775,998

*2019 and 2020 contracts shown in the Japan segment were made with the Freestyle Technology Japan KK entity. In 2020, additional contracts for Japan customers were made directly with the parent, being X2M Connect Limited and associated revenue of $245,328 is not shown in the Japan segment above.

Accounting policy for operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Income tax

	Aggregated	
	2020	**2019**
	$	**$**
Income tax expense		
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-

Accounting policy for income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 6. Cash and cash equivalents

	Aggregated	
	2020	**2019**
	$	**$**
Current assets		
Cash at bank	111,862	158,673

Accounting policy for cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 7. Trade and other receivables

	Aggregated	
	2020	**2019**
	$	**$**
Current assets		
Trade receivables	311,489	86,640
Other receivables	9,381	105,587
	320,870	192,227

Accounting policy for trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Aggregated Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 8. Contract assets

	Aggregated	
	2020	**2019**
	$	**$**
Current assets		
Contract assets	404,881	1,218,597

Accounting policy for contract assets
Contract assets are recognised when the Aggregated Group has transferred goods or services to the customer but where the Aggregated Group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets at amortised cost for impairment purposes.

Note 9. Inventories

	Aggregated	
	2020	**2019**
	$	**$**
Current assets		
Finished goods - at cost	254,566	42,803

Accounting policy for inventories
Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 10. Other assets

	Aggregated 2020 $	Aggregated 2019 $
Current assets		
Prepayments	241,300	242,702
Non-current assets		
Deposits	256,118	141,344
	497,418	384,046

Note 11. Property, plant and equipment and right-of-use assets

	Aggregated 2020 $	Aggregated 2019 $
Non-current assets		
Office equipment - at cost	223,814	207,849
Less: Accumulated depreciation	(206,177)	(196,283)
	17,637	11,566
Deployed infrastructure - at cost	2,714,276	2,757,576
Less: Accumulated depreciation	(1,551,015)	(787,879)
	1,163,261	1,969,697
Right-of-use assets - at cost	145,103	-
Less: Accumulated depreciation	(19,331)	-
	125,772	-
	1,306,670	1,981,263

Accounting policy for property, plant and equipment
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives commencing from the time each asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The estimated useful lives of property, plant and equipment are as follows:

Office equipment	5-20 years
Deployed infrastructure	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Note 11. Property, plant and equipment and right-of-use assets (continued)

Accounting policy for right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Aggregated Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Aggregated Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 12. Intangible assets

	Aggregated	
	2020	2019
	$	$
Non-current assets		
Licence fees	200,000	200,000
Less: Accumulated amortisation	(65,188)	(65,188)
Less: Impairment	(134,812)	(134,812)
	-	-

Accounting policy for intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Licences
Licences are measured at cost less accumulated amortisation and any accumulated impairment losses. Licences are amortised over their useful life, being the licence period.

The licences were impaired in full prior to the 2019 financial year.

Note 13. Trade and other payables

	Aggregated 2020 $	Aggregated 2019 $
Current liabilities		
Trade payables	486,594	444,533
Accrued expenses	140,094	217,893
	626,688	662,426

Accounting policy for trade and other payables
These amounts represent liabilities for goods and services provided to the Aggregated Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 14. Contract liabilities

	Aggregated 2020 $	Aggregated 2019 $
Current liabilities		
Contract liabilities	7,798	2,189

Accounting policy for contract liabilities
Contract liabilities represent the Aggregated Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Aggregated Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Aggregated Group has transferred the goods or services to the customer.

Note 15. Borrowings

	Aggregated 2020 $	Aggregated 2019 $
Current liabilities		
Loan from external party	170,498	1,298,609
Related party borrowings	846,625	9,464,137
	1,017,123	10,762,746

Accounting policy for borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Loan from external party
The loan from an external party is unsecured. The balance of the external loan at 30 June 2020 will bear interest at between 4%-6% until paid.

Related party borrowings
During the 2020 financial year, amounts payable to Freestyle Technology Limited were extinguished on 26 February 2020 upon sale of the companies within the Aggregated Group from Freestyle Technology Limited to X2M Connect Limited, resulting in a gain for the Aggregated Group of $12,181,434.

Related party borrowings as at 30 June 2020 represent amounts loaned to the Aggregated Group from X2M Connect Limited post 26 February 2020.

Note 16. Lease liabilities

	Aggregated	
	2020	**2019**
	$	**$**
Current liabilities		
Lease liability	62,943	-
Non-current liabilities		
Lease liability	64,273	-
	127,216	-

Accounting policy for lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Aggregated Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 17. Employee benefits

	Aggregated	
	2020	**2019**
	$	**$**
Current liabilities		
Employee benefits	92,398	57,867
Non-current liabilities		
Employee benefits	191,353	120,110
	283,751	177,977

Accounting policy for employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 18. Provisions

	Aggregated 2020 $	Aggregated 2019 $
Current liabilities		
Onerous contract	87,847	81,412
Non-current liabilities		
Onerous contract	-	89,248
	87,847	170,660

Accounting policy for provisions
Provisions are recognised when the Aggregated Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Aggregated Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Onerous contracts
A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Aggregated Group recognises any impairment loss on the assets associated with that contract.

In the 2017 financial year, the company within the Aggregated Group entered into a non-cancellable contract for a rollout of an advanced water meter reading solution to the city of Gochang in South Korea. This was the first deployment of its type in South Korea and the contract is for 5 years with a 3 year option period. The deployment to 24,000 households was to show case the Aggregated Group's technology to future potential customers and was priced accordingly. In determining the provision, the Aggregated Group has taken into consideration the costs of executing the project over the 5 years period which have been contracted, without including cash inflows expected from an extension at the option of the customer. The equipment is expected to have an effective useful life of 5 years. The obligation of the total costs of the contract, net of expected income, has been provided for in the provision.

Note 19. Events after the reporting period

During the financial year the COVID-19 pandemic has had a significant impact on local and international economies. While the short-term impact to the Group has been estimated when considering the going concern assumption in the preparation of the financial report, the longer term impacts of COVID-19 on the operations of the Aggregated Group remain uncertain and cannot be quantified at this time.

Subsequent to 30 June 2020, X2M Connect Limited has provided the Aggregated Group with additional loan funding of $1,480,000.

Note 19. Events after the reporting period (continued)

Subsequent to 30 June 2020, the following occurred in relation to X2M Connect Limited:

- On 16 November 2020, X2M Connect Limited entered into a loan of $500,000 with two of its shareholders. On 19 January 2021, X2M Connect Limited extended the loan amount to $1,000,000. On 9 February 2021, X2M Connect limited amended the loan to repay an initial amount of $500,000 (paid on 3 March 2021) and defer the repayment of the balance of the loan and interest until after subsequent capital raisings occur. On 30 April 2021, X2M Connect Limited made a drawdown of $204,000 of the repaid funds and further amended the loan to convert 50% of the total outstanding amount to ordinary shares and to pay the remaining 50% into the broker account for the planned IPO;
- On 13 January 2021, X2M Connect Limited received in principle advice from the ASX that it could proceed with the process to list on the ASX;
- On or about 8 February 2021, the shareholders of X2M Connect Limited determined that, in preparation for the IPO, an experienced and independent Board should be put in place and should replace the existing Board. The existing Board nominated and appointed four new independent directors and then resigned their positions from the Board;
- X2M Connect Limited had $4,200,000 of convertible notes accounted for as current liabilities as at 30 June 2020. These notes converted to ordinary shares on 11 March 2021;
- Subsequent to 30 June 2020 X2M Connect Limited issued additional convertible notes totalling $4,300,000. Of these notes $1,300,000 converted to ordinary shares on 11 March 2021. The remaining $3,000,000 of notes were redeemed on 24 April 2021, with $1,500,000 paid on 16 April 2021 and the remaining $1,500,000 plus interest scheduled to be paid in June 2021; and
- In May 2021, X2M Connect Limited raised $1,045,000 through the sale of ordinary shares to new investors.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Aggregated Group's operations, the results of those operations, or the Aggregated Group's state of affairs in future financial years.

Aggregated Group of X2M Connect Limited Subsidiaries
Directors' declaration
30 June 2020

For the year ended 30 June 2020

The Directors of X2M Connect Limited have determined that this special purpose financial report should be prepared in accordance with the accounting policies described in the notes to the financial statements.

The Directors of X2M Connect Limited declare that:

- the financial statements and notes comply with the Accounting Standards as described in the notes to the financial statements; and

- the attached financial statements and notes give a true and fair view of the Aggregated Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Aggregated Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of X2M Connect Limited.

On behalf of the Directors of X2M Connect Limited

Hon. Alan Stockdale AO
Non-Executive Chairman of X2M Connect Limited

12 June 2021

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Independent Auditor's Report

To the Members of X2M Connect Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of the Aggregated Group of X2M Connect Limited Subsidiaries (the Aggregated Group) which comprises the aggregated statement of financial position as at 30 June 2020, the aggregated statement of profit or loss and other comprehensive income and aggregated statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Aggregated Group of X2M Connect Limited Subsidiaries:

a presents fairly, in all material respects, the Aggregated Group's financial position as at 30 June 2020 and of its performance and cash flows for the year then ended; and

b complies with Australian Accounting Standards to the extent described in Note 1.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Aggregated Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Aggregated Group for the year ended 30 June 2020 reported a net loss, excluding the net gain recognised on forgiveness of related party loans from Freestyle Technology Limited, of $3,309,378 (2019: $3,595,787) and as at 30 June 2020 the Aggregated Group had a working capital deficiency, being current assets less current liabilities, of $561,318 (2019: $9,711,638). As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Aggregated Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter – basis of accounting

We draw attention to Note 1 of the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the needs of X2M Connect Limited. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial report

Management is responsible for the preparation and fair presentation of the financial and have determined that the accounting policies used and described in Note 1 to the financial report are appropriate to meet the needs of X2M Connect Limited. This responsibility also includes such internal control as management determines is necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the Aggregated Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Aggregated Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Aggregated Group's financial reporting process.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 12 June 2021