

X2M Connect Limited (ASX:X2M) ASX Announcement



ANNUAL REPORT 2021

1st October 2021

X2M Connect Limited provides the attached Annual Report 2021 to shareholders.

The Board of X2M has approved this announcement.

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About X2M Connect Group

X2M Connect (X2M) is an Australian technology company with proprietary Internet of Things (IoT) technology that uses the internet to deliver productivity improvements, cost savings and improved public safety to enterprise and government customers. The technology connects devices over the internet and enables data exchange and the remote control of devices. Revenue is generated via the sale of hardware, as well as monthly subscription services (Software as a Service (SaaS)).

The Company's strategy is to invest in growth and scale the business internationally. X2M's current focus is on servicing the utility sector in the Asia-Pacific (APAC) and the Company has successfully established a number of government and enterprise customer relationships. The business is head quartered in Melbourne Australia and has subsidiaries in Japan, South Korea, Taiwan, and the recently established subsidiary in Beijing, China.

Further information on can be found on the Company's website www.x2mconnect.com

X2M Connect

Annual Report 2021

www.x2mconnect.com



TABLE OF CONTENTS

SNAPSHOT FY 2021	2
CHAIRMAN'S LETTER	4
OPERATIONAL OVERVIEW	6
DIRECTORS REPORT	14
REMUNERATION REPORT	24
AUDITORS INDEPENDENCE DECLARATION	36
2021 FINANCIAL REPORT	37
<i>Income Statement</i>	37
<i>Statement of financial position</i>	38
<i>Statement of changes in equity</i>	39
<i>Statement of Cashflows</i>	40
DIRECTORS DECLARATION	73
CORPORATE GOVERNANCE STATEMENT As at 19 th September 2021	77
ADDITIONAL INFORMATION	85
COMPANY DIRECTORY	93

Key Notes:

- All currency is reported in Australian Dollars unless otherwise noted.
- Reporting year 2020 represents the period in which the Company was incorporated 9th December 2019 to 30th June 2020.
- PCP refers to the previous comparative period.

SNAPSHOT FY 2021

Revenue

\$5.7
million

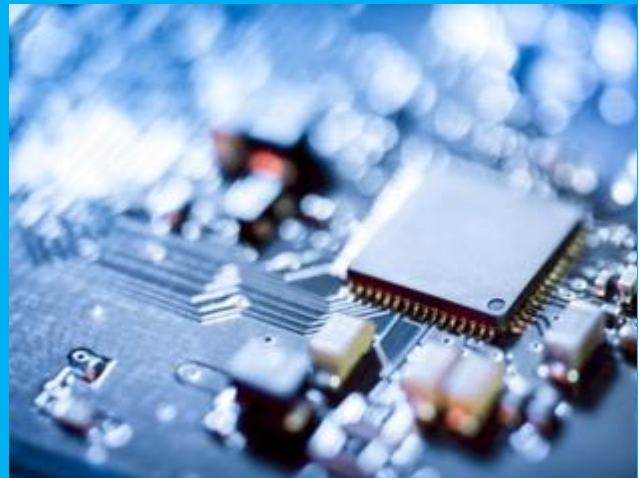


123,000

devices connected

+36%

Increase in
key customers





Offices
in **5** countries

Successful listing on
ASX



Entered the
ENERGY
vertical

CHAIRMAN'S LETTER

My name is Alan Stockdale and I am the Chairman of X2M Connect Limited ("X2M").

The 2020-2021 year has been an historic one for our company.

On the 20th of September 2021, X2M was admitted to the Australian Securities Exchange ("ASX") and trading of the company's shares commenced on the 22nd of September 2021.

On behalf of the X2M Board and management, I welcome you as a shareholder and as a stakeholder in what we believe will be a successful future of our company. I commend this Annual Report to you and hope that you will find it interesting and encouraging.

A new independent Board for our company was appointed on 8th February 2021. Details of the Directors' qualifications and experience are set out in this Report. The Directors have been working very well together throughout the year and I believe that the company is fortunate to have such a strong and diligent Board. I would like to take the opportunity to thank the previous Board for their oversight of the Company.

The Board would like to congratulate our CEO, Mr. Mohan Jesudason and his senior executive team, as well as our advisers and brokers on the successful listing of X2M.

The current strategic focus of the business is on digitising the utility sector in the Asia Pacific Region (APAC) with its proprietary Internet of Things (IoT) technology. The Company's core value proposition is to assist both utilities and governments to save time, money and enhance public safety, by enabling new and existing utility devices to communicate both to each other and to a centralised system via the internet. Details of the company's business are set out comprehensively in the Prospectus which was the basis of investment in the listed Group and in this Report. Essentially the company offers utilities hardware and local governments Software-as-a-Service (SaaS) monitoring and control of meters and other devices through platform that has near-universal interoperability across devices and communications technologies. We also sell to or partner with manufacturers of meters and other devices.

In the longer term, X2M has potential to participate in markets outside utility industries but, even within utilities in the APAC region, the company's addressable market is significant. The company has been experiencing substantial growth and we expect that to continue.

The company's IPO raised \$8.0 million and, accordingly, for the foreseeable future, X2M is in a good position to carry out its growth plans. Strategically, the company is aiming to further upgrade its sales and marketing workforce across its operating geographies and to make other investments to support the focus on growth.

The year under review has been an exciting one for our company.

Business development continues to progress well. Revenues for the 2021 year were \$5.7 million and the number of devices connected to our platform at year-end was 123,256.

Before IPO costs, the result for the year was an EBITDA loss of \$4.4 million. This reflects the Company's strategy to invest in growth and scale the business internationally, as well as the costs associated with delivering the additional revenue and the first full year of operation.

We are gaining traction in key markets.

The company established an office in Beijing during 2021 and, whilst early days, the Directors believe that there are good opportunities for expansion in China. Our products and services strongly complement government programs, especially urbanisation of its population and the investment in infrastructure including the digitisation of utilities.

Our biggest market is currently South Korea and, again, we believe that the market offers good prospects of further growth. Several municipalities have already contracted X2M to upgrade their metering technologies. In addition, the South Korean Government is encouraging and providing funding for municipalities to improve the technological capabilities of their utilities. These policies make South Korea a target for still further increases in market penetration.

We have built momentum in Japan, and we expect that roll-out to continue apace.

X2M also has growth prospects in Australia and Taiwan and, over the next few years is targeting entry into other national utility markets in the APAC region.

X2M is a leader in IoT technologies. Whilst the products are well through the development phase, we continue to enhance our devices and the platform to meet customer needs. Our base platform is substantially built which has facilitated a significant reduction in development costs and the Board and management maintain a strong focus on overall cost control. The worldwide shortage of semiconductors poses a threat to companies like ours, but management is implementing measures to protect the business from that risk. We are also further refining our hardware to reduce costs and further improve competitiveness.

Our products and services provide important efficiencies, accountability, and safety to user utilities. The rapid urbanisation of APAC countries generally is increasing the number of households in cities, Governments in the region are pursuing policies that make our offerings even more attractive and the region has a long history of rapid uptake of new technologies.

Your Director's and management see great opportunities ahead for our company.



HON. ALAN STOCKDALE AO
CHAIRMAN

OPERATIONAL OVERVIEW

About X2M

X2M Connect (X2M or the Company) is an Australian technology company with proprietary Internet of Things (IoT) technology that uses the internet to deliver productivity improvements, cost savings and improved public safety, to enterprise and government customers. The technology connects devices over the internet and enables data exchange and remote control of devices. The platform collects data and communicates between analogue and digital technologies without requiring a major system upgrade.

Whilst the Company's technology can be taken into any virtual market, X2M's current focus is digitizing the utility sector in Asia-Pacific (APAC) through the provision of technology which connects devices over the internet, such as water meters and gas pressure sensors and which enables data exchange and control of these devices. This category is commonly referred to as the Internet of Things (IoT).

The business is currently operated through subsidiaries in Japan, South Korea, Taiwan and China, with the head office based in Melbourne, Australia.

In February this year, the former Board of X2M, which represented the two largest shareholders, resigned to make way for an Independent Board to oversee the broader interests of all shareholders and prepare the Company for listing on the Australian Securities Exchange (ASX). On the 22nd of September 2021, X2M commenced trading on the ASX under ticker code 'X2M'.

Technology and the Business Model

X2M's technology is built on an end-to-end, interoperable IoT solution which enables different computerized products and systems to readily connect and exchange information with one another. The Company is currently focussed on enabling individual devices in the utility sector to exchange data with the Company's proprietary software platform.

There are 3 core components to X2M's technology offering.

- 1) **Network Interface Card (NIC):** The NIC can be added to or integrated within devices including meters, valves, and pumps. It enables existing devices without communication capability to transmit and receive information with one another and, where required, to control devices.
- 2) **Micro Engine:** This is the core of the Company's technology offering. This is an 'intelligence engine' or 'logic concentrator' that interacts with multiple devices over any network. Applications running on the Micro Engine can make autonomous decisions based on the information they receive from individual devices or from groups of devices (commonly known as 'distributed intelligence'). The Micro Engine applications can also collate and normalise the information received from each device and send it to the X2M IoT platform, resulting in an overall reduction in the amount of data that needs to be sent to the platform.

- 3) **X2M's IoT Platform:** The X2M IoT platform is a SaaS offering that manages, monitors, diagnoses and controls deployed Micro Engines and all connected devices.

It acts as an aggregation point for all customer data, report generation, and network management. It integrates via an open interface to billing, enterprise resource planning, customer care, marketing, and geospatial systems.

The X2M IoT platform is known as the 'Vision Platform'. The platform includes the mobile application known as 'PRISM'. PRISM is the user application that allows households to access their usage data and alerts and is available if the utility provider subscribes to this service. An example screenshot of the Vision and PRISM user interface is below.



Figure 1: Screenshots of the user interface of X2M's software platform

The platform enables a utility provider to interact with, analyse and control their meter network remotely, including at the individual meter level. In turn, this allows utility companies to receive extensive live data from any meter or sensor, analyse it and send commands back within seconds. The versatility of the technology means it can be applied to a number of industries in addition to utility meter monitoring.

The technology enables the Company to generate revenues from a combination of:

- a) hardware sales
- b) upfront connection fees for non X2M devices as they come on to the X2M IoT platform,
- c) time-based subscription fees and,
- d) licensing fees from hardware manufacturers or system integrators.

The Company's primary focus is building recurring revenue streams by embedding X2M technology in a customer's ordinary course of operations and then charging monthly fees for access to Vision and PRISM and through platform licensing arrangements

Impact of the Covid 19 Pandemic

The Covid-19 pandemic had limited impact on X2M in 2021. The Company currently services the utility sector, which is relatively immune to external influences, including the pandemic. Because the utility sector remained operational, the Company was able to continue servicing customers and developing the sales pipeline. Management also adopted several proactive strategies that included establishing a virtual management operating rhythm, very tight control of discretionary expenses, and a number of supply chain initiatives to minimise any potential impact.

X2M will continue to adapt to the operating environment and manage risk appropriately as the impacts of the global pandemic continue to play out.

Strategy

The Company has a clear strategy to invest in growth. For the next few years, the Company will invest available funds in people and initiatives to sustain substantial growth rates.

The growth strategy is working as shown by the growth in top-line revenue in FY 2021 compared to the full year as per the pro forma accounts published in the Prospectus. The FY 2021 EBITDA loss reflects investment in growth, even in the context of tight cost control, against the higher costs associated with securing additional revenue and the effect on cost of goods under existing and new contracts.

There are 5 core pillars to the X2M strategy:



Consolidate strong position in existing markets

- Korea - continue to contract additional municipalities
- Japan - continue to aggressively grow connected devices
- Taiwan - continue to expand into adjacent verticals
- China - establish hardware re-selling arrangements



Expand into compatible verticals in existing markets

- Remote battery energy monitoring
- Integrated sustainable energy management



Continue development of SaaS business

- Replicate model implemented in Japan within other markets
- Maintain market leading IoT platform offering with high customer focus



Expand into new geographies

- China - POC's completed, initial hardware contracts as reseller executed
- Philippines - leverage POC's completed
- India - investigate entry for late 2023
- Vietnam - consider in 2024



Manage margin and cash burn

- Strong focus on operational and financial controls and efficiency

2020 Comparative Reporting Financial Reporting Period

X2M was incorporated on the 9th of December 2019. Therefore, the comparative period reported in the statutory accounts is for the part-year 9th December 2019 to 30th June 2020.

Group Performance Summary

The 2021 financial year was the first full year of X2M's operations. The Group reported revenue of \$5.7 million, and an EBITDA loss of (\$4.4 million). The EBITDA results exclude share-based payment expenses, which are non-cash, and IPO related costs which are non-recurring.

Key highlights for the Group as of 30th June 2021 include:

- Revenue \$5.7 million.
- EBITDA loss \$4.4 million.
- Connected devices 123,256, up 93%.
- Number of enterprise customers 34, up 26%.
- Cash at bank \$1.9 million.
- Total assets \$6.9 million, up 26%.

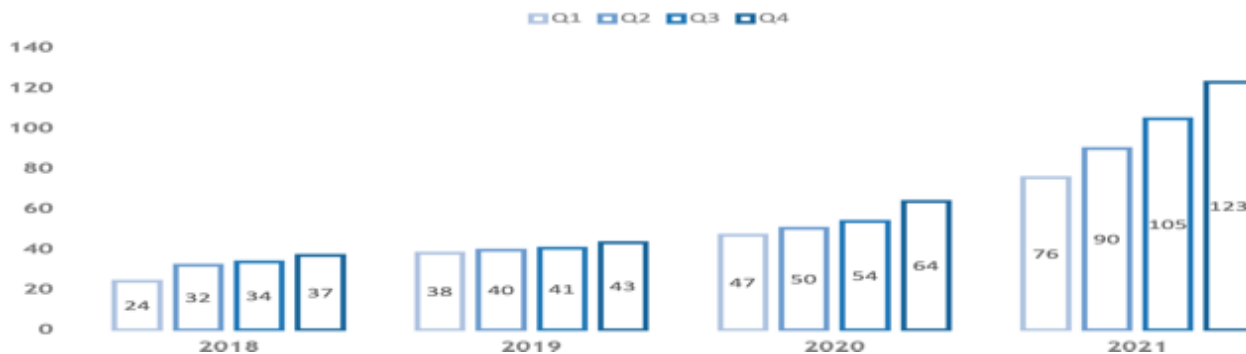
Summary of Financial Results

\$000's	FY2021	9 DEC 2019 - 30 JUN 2020
Revenue	5,700	1,314
EBITDA	(4,440)	(951)
Depreciation and amortisation	(1,245)	(386)
EBIT	(5,685)	(1,337)
Share Based Payment Expense	(2,072)	-
IPO Expenses	(681)	-
Finance Costs	(161)	(113)
Income tax benefit	344	62
Loss after Tax	(8,255)	(1,388)

Table 1: Summary of Financial Results 2021 vs Statutory Comparative Period

Key Performance Metrics

Operational Metrics - Number of Connected Devices - 000's



Graph 1: Number of connected devices. Results prior to February 2020 represents performance before ownership by X2M

The number of connected devices is an indicator of the revenue earned from subscription to the X2M platform. In FY 2021, the growth in connected devices was driven by the increased market penetration and new connections in South Korea and Japan:

- 74% of devices were added via licencing arrangements in Japan.
- A further 21% of devices were added from further penetration into existing customers in South Korea.

Financial Metrics (\$m)

a) Revenue

\$000's	2021	9 DEC 2019 - 30 JUN 2020
Revenue	5,700	1,314
Total Revenue and Other Income	6,520	1,494

Total Revenue and Other Income increased to \$6.5 million. Growth was largely driven by accounting for the full year trading period, increased market penetration in South Korea, Japan and Taiwan, and entry into China.

Other income predominantly consists of government assistance in response to the Covid 19 pandemic including JobKeeper \$0.4 million, research and development tax credits \$0.3 million and receipt of an export government grant of \$0.1 million.

Platform and subscription revenue grew to \$1.4 million in 2021 and hardware sales grew to \$4.1 million. A further \$0.1 million was earned from costs associated with developing proof of concepts.

b) Total Expenses

\$000's	2021	2020
Total expenses	15,119	2,945

The increase in operating expenses reflects the Company's strategy to invest in growth and scale the business internationally. The increase in expenses is associated with a full year of operations and the increased cost of achieving the additional revenue.

In addition to the full year operating costs, the increase in expenses was driven by:

- Full year cost of sales - \$4.1 million.
- Full year employee benefits expense - \$6.7 million that includes the appointment of the Board, an additional 3 FTE versus 2020, and share based payment expenses that included a number of one-off awards related to listing - \$2.1 million.
- Finance costs of \$0.2 million primarily as a result of interest charged on loans.
- Full year of depreciation and amortisation - \$1.2 million.
- One off cost associated with the IPO - \$0.7 million.

c) Comparison with pcp as per Prospectus Pro Forma Accounts

\$000's	FY 2021	PROFORMA FY 2020	CHANGE
Revenue	5,700	3,126	82%
EBITDA	(4,440)	(4,944)	(10)%
Share based payment expenses	(2,072)	-	-
IPO expenses	(681)	-	-
Depreciation and amortisation	(1,245)	(913)	36%
Finance costs	(161)	(56)	186%
Income tax benefits	344	-	-
Loss after Tax	(8,255)	(5,913)	40%

Table 2: Comparison with proforma pcp

Pro-forma results for FY 2020 are provided to facilitate a year-on-year comparison, which is more meaningful for assessing underlying performance than the statutory part year. The FY 2020 pro-forma results are from the X2M Prospectus dated the 24th of August 2021. A copy of the Prospectus can be found on the Company's website: www.x2mconnect.com.

The EBITDA loss for FY 2021 is 11% lower than the loss reported in the pcp as per the full year Pro Forma accounts published in the Prospectus.

Funding and Capital

Cashflow continued to be managed tightly, balancing the cash requirements of driving growth with the increased costs of scaling the business and listing.

The short-term funding strategy prior to listing on the ASX was primarily focussed on the use of convertible notes to provide short term funding. The group issued \$4.2 million of convertible notes in the prior year which were converted to ordinary shares in March 2021. As of the 30th of June 2021, the Balance Sheet reflects an outstanding loan balance of \$2.4 million of which \$1.5 million is outstanding convertible notes, \$0.5 million from related party loans and the balance is an unrelated party loan.

The longer-term funding strategy is to access capital from the public markets following the Company's September 2021 listing on the ASX. In the IPO, the Company raised \$8.0 million (before costs associated with the listing).

Segment Performance

Four segments were identified for reporting in FY 2021 - South Korea, China, Taiwan and Other. The results to date recognize the early stage of operations in key markets and the investment required to drive market penetration.

\$000's	REVENUE		EBIT	
	2021	9 DEC 2019 - 30 JUN 2020	2021	9 DEC 2019 - 30 JUN 2020
South Korea	3,901	1,020	(1,912)	(360)
China	1,089	-	(280)	(2)
Taiwan	547	29	(944)	(242)
Other	285	265	(2,549)	(734)
Eliminations	(122)	-	-	-
Group	5,700	1,314	(5,685)	(1,338)

Table 3: Comparison of revenue and EBIT by segment

a) South Korea

South Korea is currently the largest market for X2M and achieved revenue of \$3.9 million. The three largest customers accounted for 40% of the Groups revenue.

During the period, the Company secured seven new municipalities for its water monitoring solution. This added in excess of 400,000 households to the Company's addressable market, bringing the total number of addressable households from existing customers to 600,000 as of the 30th of June 2021.

South Korea reported an EBIT loss of \$1.9 million. This was driven by the increase in expenses reflecting the total cost of trading for the full year and the increased cost to scale the business and increase market penetration. Results also reflect the increased cost of goods associated with the increased revenue, and the additional cost of appointing 3 incremental sales resources to drive market penetration and expand existing municipality relationships.

b) China

In 2021, X2M entered The People's Republic of China, generating revenue of \$1.1 million, and an EBIT loss of \$0.3 million.

The Chinese market is currently run out of Taiwan and is under the management of the Taiwan team. The Company secured an Internet Content Provider Licence during the year which enables the delivery of software services into the Chinese market. The Company generated hardware revenues of \$1.1 million through two reselling contracts. The Company's strategy is to enter this market through similar hardware reselling arrangements and establish a base of devices for integration of its software.

The costs associated with establishing the new subsidiary and appointing a resource is reflected in the cost base.

c) Taiwan

Taiwan achieved revenue of \$0.5 million.

The Company has broadened its business base beyond the gas sector where it provides enterprise customers remote meter reading, data collection, leak detection and pressure monitoring services to the water and energy sectors through industrial battery monitoring services. Investment in growing the market resulted in an EBIT loss of \$0.9 million.

d) Other

The Other segment currently includes Japan, Hong Kong and Australia. Australia is the cost centre for corporate costs including head office expenses and R&D software development costs. This segment reported revenue of \$0.3 million and an EBIT loss of \$2.5 million, excluding unallocated costs described below.

In Japan, approximately half the residential market are supplied with gas via bottles rather than from reticulated networks and, accordingly the bottled gas market is substantial. Revenue generated in Japan is via a SaaS based licensing arrangement with one of the

country's largest gas and water meter manufacturers. The Company earns recurring software revenues per connected device for the monitoring of bottled gas usage and logistics management. Connected devices on the X2M platform increased from 17,000 devices to 61,000 at the end of June 2021.

Revenue in Australia is currently limited to gas usage monitoring for a utility provider.

Unallocated corporate overheads and expenses included in this segment are comprised of governance overheads, Board costs, increased accounting costs and professional fees.

DIRECTORS REPORT

Governance

To the extent the Directors regard as appropriate to the size and stage of development of the Company, X2M has adopted the recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th edition) throughout the reporting period (exceptions are set out below). Details are provided in the Corporate Governance Statement. Given the Company has only recently listed on the ASX, the following governance principles will be implemented in 2022.

Governance Principles to be Implemented in 2022

The following governance principles will be adopted in the coming year.

- The Board will undertake a review of the Board and Board Committees. In the meantime, whenever required, the Board as a whole will undertake the function of the Nomination Committee and a Remuneration Committee.
- Company values will be formally launched internally and reported.
- The approach to risk management will be formalised to include a risk management framework and risk appetite statement.
- Appointment of an internal audit function will be considered during the year.

Governance Principles to be Adopted at a Later Date

Due to the Company's current size, the following governance principles won't be adopted by X2M in 2022 but will be considered by the Board annually.

- Appointment of a Nomination Committee.
- Appointment of a Remuneration Committee.

Further details of the key corporate governance policies and practices of the Company during the year are set out in the Corporate Governance Statement on page 77. Full details of the Corporate Governance Statement are also available on the company website

Board and Committee Membership

Table 4 sets out the Directors of X2M and their attendance at Board and Committee meetings during the financial year. Details of their skills and experience are detailed on pages 15-16.

DIRECTORS	BOARD MEETINGS		AUDIT & RISK COMMITTEE	
	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
Alan Stockdale ▲	12	12	1 ●	1●
Jodie Leonard	12	12	1	1
Damien Johnston ▲▲	12	12	1	1
John Stewart	12	12	1	1
Michael An	1	1	-	-
Lee Mayberry	1	1	-	-
Narender Lakhwani	-	-	-	-

Table 4: Board and Committee Membership.

Legend: ▲ Chair of Board. ▲▲ Chair of Audit and Risk Committee. ●: Observer

BOARD OF DIRECTORS

Hon. Alan Stockdale AO

Independent Chair

B.A; LLB



Background and Experience

Mr. Stockdale has significant legal, Government, investment banking and other business experience. He was Victorian Treasurer (1992-1999) and was the Minister for IT and Multimedia from 1996 to 1999. He was a successful barrister, law firm Partner and Consultant and worked as an investment banker for Macquarie Bank.

Mr. Stockdale is Chairman of Knosys Limited and was previously Chairman of ASX-listed companies Senetas, Axon Instruments and Symex (now Pental) and Chairman of the Medical Research Commercialisation Fund.

Special Responsibilities

Observer Audit & Risk Committee

Other Current ASX Roles

Knosys Limited (ASX:KNO)

Former ASX Directorships (3 yrs)

Nil

Appointment Date

8th February 2021

Damien Johnston

Non-Executive Director

B.Com; FCPA, MAICD



Background and Experience

Mr. Johnston is an ASX experienced Finance Executive. Mr. Johnston was Chief Financial Officer at Tabcorp Holdings Limited until 2019 and held several senior financial roles at BHP Group Limited. Mr. Johnston has solid governance experience through his involvement on the Tabcorp Holdings Ltd Board and related committees. Mr. Johnston has extensive experience in mergers and acquisitions at Tabcorp Holdings Limited and BHP Group Limited.

Special Responsibilities

Chair Audit & Risk Committee

Other Current ASX Roles

Nil

Former Directorships (3 yrs)

Nil

Appointment Date

8th February 2021

Jodie Leonard

Non-Executive Director

B.Bus; FAICD;



Background and Experience

Ms. Leonard is an experienced ASX Non-Executive Director with a focus on companies undertaking growth and transformation. She has experience in a diverse range of industries including banking & financial services, technology & telecommunications, and media & entertainment. Ms. Leonard also has extensive governance experience, having worked in multiple APRA regulated entities.

Ms. Leonard is currently a Non-Executive Director of Great Ocean Road Coast & Parks Authority and was previously a Non-Executive Director of BWX Limited, Flexigroup Limited (now HUM), RACV, Beyond Bank Australia, Kinetic Superannuation, Racing Victoria and Tourism North East.

Special Responsibilities

Member of Audit & Risk Committee

Other Current ASX Roles

Nil

Former ASX Directorships (3 yrs)

Flexigroup Limited (ASX:FXL)
BWX Limited (ASX:BWX)

Appointment Date

8th February 2021

John Stewart

Non-Executive Director
LLB (Hons); Law; B.Com

**Background and Experience**

Mr. Stewart has 25 years' experience in merger and acquisition advisory roles and has been CEO of a start-up with 50 employees. Mr. Stewart held senior roles at Gresham Partners, Lazard, JPMorgan and Thomas Weisel Partners and has strong networks in business, venture capital, finance, law and politics. Mr. Stewart is a director of SSW Dairy Pty Limited, Stratford Retail Group (UK), Sovereign Investments, Gander APP Pty Ltd and Access Investing Limited.

Special Responsibilities

Member Audit & Risk
Committee

Other Current ASX Roles

Nil

Former Directorships (3 yrs)

Nil

Appointment Date

8th February 2021

Michael An

Chair (former)
B.Com

**Background and Experience**

Mr. An is the Founder and Managing Director of Perle Ventures, a venture capital investment firm focused on large scale emerging technology opportunities globally. He has over 15 years' experience across both venture capital and private equity sectors contributing as a founder, investor, board member and strategic consultant to multiple private and publicly listed companies including Catapult Sports (ASX:CAT), Temple & Webster (ASX:TPW) and Fiscal Note Inc. Mr. An is also a Venture Partner at Aura Group, a boutique corporate advisor and investment firm with more than \$1 billion in assets under management and advice.

Resignation Date

12th February 2021

Narender Lakhwani

Non-Executive Director (former)
CFA (Masters)

**Background and Experience**

Mr. Lakhwani started his career in 2009 and has significant experience of capital markets and has worked in the areas of listed assets, private equity, venture capital and business development. Prior to joining Future Family Office in 2017, he was an Investment Associate at Cyan Limited - an investment arm of Dawood Hercules (conglomerate) making equity investments in growth-oriented businesses in Asia.

Mr. Lakhwani holds a Master of Finance degree from Melbourne Business School.

Resignation Date

17th November 2020

Lee Mayberry

Non-Executive Director (former)
CPA B.Bus

**Background and Experience**

Lee is a Certified Practising Accountant with over 15 years of experience in supporting Private Equity, Family business, Investment & Analysis, Wealth transitioning & Estate planning and Accounting & Taxation. Lee is the CEO of the Future Family Office (6 founding partners of Carsales.com) where he advises and supports families in various roles including Family Wealth, Board Directorships & Consulting, Private Equity support and management of the groups Venture Capital Funds (Constant Innovation) and Property Funds (Fortune Building)

Resignation Date

8th February 2021

Brett Tucker

Joint Company Secretary
B.Com; CA; GDipAppFin

**Background and Experience**

Mr. Tucker is a chartered accountant who has acted as company secretary to over 10 ASX listed companies across a wide range of industries, including communications and technology. Mr. Tucker has a strong knowledge of ASX Listing Rules and public company governance.

Board Skills and Experience

The Board comprises Directors with a diverse range of skills, experience, and backgrounds that support the effective governance and robust decision-making of X2M, with a particular focus on:

SKILLS/EXPERIENCE	SUMMARY	DIRECTORS WITH SKILL/ EXPERIENCE
Asia Pacific Market Experience	Experience working in/leading an organisation with global operations, or an understanding of different political, cultural, regulatory, and business environments	4
Strategy	Experience defining strategic objectives, assessing business plans and driving execution.	4
Digital, Data and Technology	Expertise in adopting new digital technologies or implementing technology projects, and experience with managing digital disruption, leveraging digital technologies or understanding the use of data and data analytics.	4
Governance and Compliance	Experience in the design and application of corporate governance and compliance programs with a commitment to high standards of governance.	4
Financial and Risk Management	Understand financial drivers of the business and experience implementing or overseeing financial accounting, reporting, internal controls, and risk management frameworks.	4
Mergers and Acquisitions	Experience in undertaking or overseeing corporate mergers and acquisitions with ability to evaluate transactions and govern the transition phase.	4
Capital Management	Experience in capital management strategies including debt financing and capital raisings.	4
People and Culture	Experience monitoring a company's culture, OHS program, people management, succession planning, and remuneration frameworks.	4
Legal and Regulatory	Experience in a capacity requiring skills and knowledge in relation to the law, especially with reference to company law and other relevant legal disciplines.	4
Government, Regulatory Agencies & Politics	Experience in dealing with Governments and Government agencies and a broad knowledge of the workings of governments and politics.	4
Infrastructure	Experience in dealing with and/or marketing and selling to infrastructure industries, especially electricity, gas water and other utilities.	1

Table 5: Board Skills and Experience

EXECUTIVE KEY MANAGEMENT PERSONNEL

Mohan Jesudason

Chief Executive Officer
B.Com; GDipMkt



Background and Experience

Mr. Jesudason has over 30 years' business and executive experience and was previously the Managing Director of Gaming and Group Marketing at Tabcorp Holdings Ltd for 10 years. He also worked at Telecom New Zealand (now Spark New Zealand Ltd) which included the position of Managing Director at Telecom Mobile.

Mr. Jesudason also worked at National Mutual/AXA (now AMP Limited) for 16 years where he served in a variety of roles from Graduate trainee to senior executive. Mr. Jesudason is a Director of the Melbourne Football Club, on the Advisory Board of Enterprise Victoria and a past Director of Racing Victoria Limited where he was also a Member of the Racing Integrity Council.

Keith Jelley

Chief Operating Officer and
Joint Company Secretary
B.Sc



Background and Experience

Mr. Jelley has over 35 years' experience in operations and technology development across 9 countries, delivering mission critical systems and transformations through major programs in the military, telecommunications, and embedded systems industries. Mr. Jelley held senior positions in the highly regulated gaming industry in Victoria.

Principal Activities

X2M operates across Asia Pacific with offices in Australia, Japan, South Korea, Taiwan and China. The Company employed 38 people at year end.

X2M currently operates in the utility space in the Asia Pacific region. During the financial year, the principal continuing activities of the Group included:

- Gas monitoring and control.
- Water monitoring and control.
- Energy monitoring and optimisation.

The technology uses the internet to deliver productivity improvements, cost savings and improved public safety to enterprise and government customers. The technology connects devices over the internet and enables data exchange and the remote control of devices. It enables remote monitoring and control of devices and sensors, including utility meters and pressure sensors, to connect to each other and a centralized system via the internet.

X2M has more than 123,000 devices connected to its IoT platform and distributed intelligence solution. It generates real-time information and control to over 30 enterprise and government customers across Asia Pacific and operates over multiple radio technologies.

Company Secretary

Joint Company Secretaries were appointed on the 12th of August 2020 to provide Company Secretarial support to X2M. Profiles of the Joint Company Secretaries can be found on pages 17 and 19.

Directors and Officers Liability Insurance

The Company's Constitution provides that X2M will indemnify any current or former Director, Secretary or other Officer of the Company or a wholly owned subsidiary of the Company against:

- a) any liability incurred by the person in that capacity.
- b) legal costs incurred in defending, whether civil, criminal or of an administrative or investigatory nature in which the person becomes involved because of that capacity; and
- c) legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties.

Non-Executive Directors have entered into a Deed of Indemnity and Access that provides for indemnity against liability as a Non- Executive Director, except to the extent of indemnity under an insurance policy or as prohibited by law.

The Deed also entitles the Non- Executive Directors or Officers to access company documents and records, subject to confidentiality, and to receive Directors' and Officers' insurance cover paid for by the Company.

During the financial period, the Company paid a premium in respect of an insurance contract. Disclosure of the total amount of the premiums and coverage liability is prohibited by the policy.

Non-Audit Services

During the period, Grant Thornton, the Company's Auditor, performed services in addition to their statutory duties. The Board are satisfied that the provision of these services is compatible with the Auditor independence requirements of the Corporations Act 2001 (Cth), as they did not involve reviewing or auditing the Auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks or rewards.

Details of amounts paid to the Auditor for non-audit services provided by the auditor in 2021 are outlined in Note 27 in the financial statements.

Dividends

Dividends were not paid, recommended, or declared in 2021. Due to the investment and growth stage of the Company's strategy, there are no plans to pay dividends at this stage.

Proceedings brought on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Matters Subsequent to the end of the Financial Period

A number of significant matters have occurred since the 30th of June 2021. Details are noted below.

- a) During the financial period, the COVID-19 pandemic has had a significant impact on local and international economies. Whilst in the short-term the Company has not had a major impact from the pandemic, the longer-term impacts of COVID-19 on the operations of the Group remain uncertain and cannot be quantified at this time.
- b) On the 2nd of July 2021, the Company issued 5,219,448 fully paid ordinary shares to key management personnel under the Company's employee incentive scheme.

- c) On the 7th of July 2021 and the 8th of July 2021, the Company received \$0.2 million and \$0.3 million funding respectively in the form of convertible notes. The convertible notes, together with a \$1.5 million of convertible notes issued in June 2021, were converted into issued capital on the 14th of July 2021.
- d) On the 14th of July 2021, the Company issued 1,486,704 fully paid ordinary shares to a key management person under the Company's employee incentive scheme.
- e) On 16th of July 2021, the Company issued 9,411,283 unlisted options to two key management personnel. These options had an exercise price of \$0.25 expiring the 15th of July 2025.
- f) On the 14th of September 2021, the company issued the following securities upon completion of the Public Offer a Replacement Prospectus lodged with ASIC:
- 32,000,000 fully paid ordinary shares at an issue price of \$0.25, raising \$8.0 million before costs.
 - 5,408,029 unlisted options under the Employee Options Offer, exercisable at \$0.3575 each. These options were subject to the satisfaction of vesting conditions, expiring the 13th of September 2025.
 - 9,559,588 unlisted options under the Executive Options Offer, vesting immediately on issue. These options were exercisable at \$0.3575 each, expiring the 13th of September 2025.
 - 3,292,308 unlisted options to Lead Manager in two tranches:
 - Tranche 1: 1,646,154 options, vesting immediately on issue, exercisable at \$0.25 each, expiring the 13th of September 2024.
 - Tranche 2: 1,646,154 options, vesting immediately on issue, exercisable at \$0.3125 each, expiring the 13th of September 2024.
- g) On the 22nd of September 2021, the Company commenced trading as a listed company on the ASX having completed an Initial Public Offering.
- h) Since the 1st of July 2021, 5 new enterprise and government contract orders for a total of \$0.8 million have been received.
- i. one customer, Okcheon in South Korea, placed follow on orders totalling \$0.4 million.
 - ii. two other existing customers in South Korea placed further orders; and
 - iii. one existing and one new customer placed gas monitoring and energy management orders respectively.
- The above five orders are in addition to other business. X2M will also continue to deploy the \$2.3 million Bucheon region contract in South Korea secured in April 2021, for which \$1.8 million revenue is expected in FY 2022.
- i) Mr. Brett Tucker and Mr Keith Jelley resigned as Joint Company Secretaries from the 30th of September 2021 and the 8th of October 2021 respectively. The Board appointed Mr. Oliver Carton as Company Secretary from the 1st of October 2021. Details of Mr. Carton's qualifications and experience can be found on the Company website.

No other matter or circumstance has arisen since the 30th of June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Use of funds

As X2M was admitted to the Official List after the end of the Reporting Period there was no use of cash assets to be reported under Listing Rule 4.10.19.

Likely Developments and Expected Results of Operations

X2M will continue to focus on growing its customer base providing utility monitoring and control services in the APAC region. The Group will continue to add devices to its IoT platform and focus on growing platform subscription revenue.

Environmental Regulation

The Group does not have any significant obligations under environmental legislation or regulation in Australia or any of the other jurisdiction in which it operates.

Key Risks

An exhaustive list of risks was outlined in the Prospectus. A copy of the Prospectus can be found on the Company website at www.x2mconnect.com.

Other Information

The following information, contained in other sections of this Annual Report, forms part of this Directors' Report:

- i. Operating and Financial Review details in pages 6 to 13 inclusive in the Annual Report.
- ii. Matters subsequent to end of the financial year as outlined in pages 21 to 22 and note 33 of the financial statements.
- iii. The Remuneration Report in pages 24 to 35.
- iv. Auditor's Independence Declaration on page 36.

This Report is made in accordance with a Resolution of the Directors of X2M and is dated 30th of September 2021.



HON. ALAN STOCKDALE AO
CHAIRMAN



MOHAN JESUDASON
CHIEF EXECUTIVE OFFICE

REMUNERATION REPORT

The Board of Directors are pleased to present the Remuneration Report for X2M Connect for the financial year ended the 30th of June 2021.

Given the size of the Company, the responsibilities of the Remuneration and Nomination Committee are overseen by the full Board of Directors. The need for a separate Committee will be reviewed annually and appointed once the Company builds further scale.

At X2M, people are our greatest asset, and the Company aims to provide a workplace that delivers high levels of employee engagement and satisfaction. We have a high-performance culture that supports our pace of growth and aspiration, and we strongly believe that everyone in the team needs to align with the Company values and expectations to drive business performance.

Diversity is about our commitment to treating everyone equally and with respect. We embrace diversity and are represented by over 8 nationalities and speak 10 languages. We believe our diverse and inclusive culture helps drive our innovative and entrepreneurial spirit.

Gender diversity remains a challenge across the technology industry. Given the current size of the team and the limited opportunity for change, we will only be able to address gender diversity as we add to or replace team members. However, the Company is an equal opportunity employer and will seek to improve gender diversity as the business grows. Details of the Company's diversity targets can be found in the Corporate Governance Plan on the X2M company website at www.x2mconnect.com and on page 77 of this report.

Remuneration Overview

Strategic Priorities

The remuneration framework is designed to support the Company's strategic priorities. A clear set of principles have been agreed which guide the Companies remuneration decisions, and remuneration plans are designed to reflect that X2M is an early-stage technology company.

The Board determines and reviews the Company's remuneration strategy to ensure it aligns the interests of KMP and staff generally with the interests of shareholders and that it provides a strong link between performance and reward. Executive reward outcomes are dependent on delivering long term value to shareholders, as well as attracting, motivating, and retaining top talent by offering market competitive remuneration and incremental reward for delivery of strong results.






				
Commercialise our Technology	Build Footprint Across Asia Pacific	Increase Market Penetration	Increase Revenue from SaaS Licensing	Build Our Capability

Table 6: Remuneration Strategy

Remuneration Principles






				
Attract and Retain Talent	Align with Strategy	Performance Focused	Reward Fairly	Merit Based

Table 7: Remuneration Principles.

Remuneration Governance

The Board actively reviews the remuneration principles and framework and may apply discretion, so it effectively delivers appropriate outcomes for shareholders, customers, and the team.

Remuneration Framework

The remuneration framework outlined below has been structured to support the group strategy.




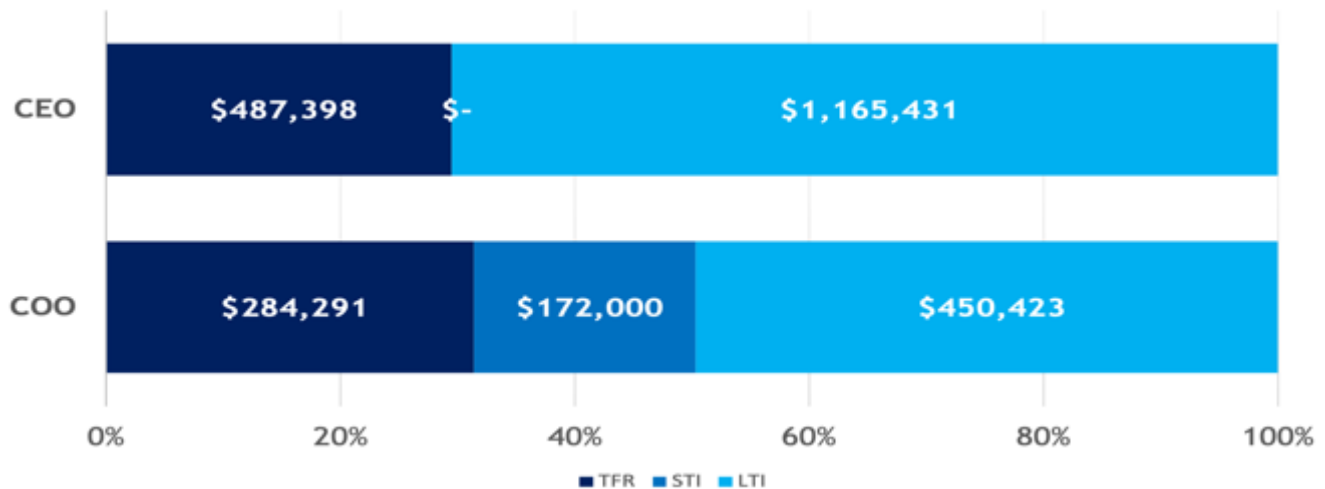
 Total Fixed Remuneration (TFR)	 Short Term Incentive (STI)	 Long Term Incentive (LTI)
Attract and retain the best talent.	Rewards current year performance.	Reward long-term sustainable performance.
Base salary and superannuation.	Annual cash payment.	Options or performance rights
TFR is set in relation to the external market and considers size and complexity of role along, with individual responsibilities, experience, and skills.	STI provides appropriate differentiation of pay for performance and is based on business and individual performance outcomes.	LTI supports alignment to long-term overall Company performance and aligns with shareholder value.
TFR positioning is 50 th to 75 th percentile of the market comparator group.	2021 objectives based on achieving personal KPI's.	Hurdles set to align with strategic business drivers and long-term shareholder value.

Table 8: Remuneration Framework.

2021 Executive KMP Remuneration Mix

The mix of fixed remuneration vs at risk remuneration for FY 2021 is shown in Graph 2 below. It reflects the breakdown of annual Total Fixed Remuneration (TFR), short term incentive (STI) potential, and the long-term incentive (LTI) opportunity should performance hurdles be met. The remuneration mix for Executive KMP's reflects remuneration agreements in place prior to listing and is weighted towards at risk remuneration.



Graph 2: 2021 Executive KMP Remuneration Mix FY 2021

Last Year's Performance on Key Metrics

In assessing performance against defined key performance indicators (KPI's), the Board reviews the Group's financial and other key performance indicators and milestones to determine whether Executives and other staff are eligible for awarding a short term or long-term incentive and, if so, to what extent. Financial results are independently verified by the Company's external Auditors. In the event of serious misconduct or material misstatement, the Board can cancel, defer or reduce performance-based remuneration.

FY 2021 Executive Remuneration at a Glance

EXECUTIVE KMP	FIXED REMUNERATION	SUPER	STI	LTI	OTHER	TOTAL
Mohan Jesudason Group CEO	\$465,704	\$21,694	\$ 0	\$1,165,431	\$33,948	\$1,686,777
Keith Jelley ¹ COO & Joint CoSec	\$262,597	\$21,694	\$172,000	\$450,423	\$14,102	\$920,816

Table 9: Executive KMP Remuneration Earned in FY 2021

¹ Mr Jelley was paid \$172,000 sign on bonus upon signing his contract on the 21st of May 2021 and this is shown as an STI in Table 9.

Executive KMP Remuneration

Key Performance Indicators

Key Performance Indicators (KPI's) are set by the Board and reviewed annually, with targets based on the delivery of key drivers of the annual business plan. In 2021, the KPI's reflected prelisting priorities and focussed on:

- Successfully listing on the ASX
- Achieving revenue targets
- Delivering growth of connected devices
- Building the sales pipeline
- OPEX management
- Cashflow management

Short Term Incentive (STI)

The STI plan primarily focusses on the delivery of personal KPI's.

Prior to listing, STI arrangements were negotiated on different terms and conditions across the Company. In 2021, the CEO was the only KMP eligible to earn an STI. The quantum of the CEO's STI payment reflects the risk and reward of successfully establishing and leading the Company through the acquisition of Freestyle Technology's assets, developing the Company's business model and taking the Company to listing. It also represents the opportunity cost of not pursuing other opportunities external to X2M.

The STI entitlement was not awarded in 2021 and payment will be considered in 2022.

The payment made to the Chief Operating Officer reflects a sign on bonus paid for re-signing with the Company and has been noted in the table below for transparency. Table 10 details the Executive KMP STI arrangements in the reporting year.

STI ARRANGEMENTS		STI \$ VALUE
Mohan Jesudason <i>Group CEO</i>	Upon the Company meeting all the ASX conditions required for admission to the ASX Official List, Mr. Jesudason will receive a bonus equivalent to 1.5% of the Company's post-IPO money valuation immediately preceding trading on the ASX.	\$525,381
Keith Jelley <i>COO & Joint CoSec</i>	Sign on bonus pursuant to the 12 th of May 2021 employment agreement.	\$172,000

Table 10: Details of Executive KMP STI arrangements FY 2021.

Long Term Incentive Plan (LTI)

The LTI plan aligns key management personnel with shareholder objectives and expectations. A fundamental principle of the plan is to ensure that KMP are rewarded when shareholders are rewarded. The LTI plan is also a key retention tool and plays an important part in attracting top talent and retaining key executives.

In order to incentivise KMP and align with shareholder objectives, the 2021 LTI plan provided for the potential to be awarded shares, performance rights and options. A summary of the key LTI plan terms and conditions follow in Table 11 and 12.

Incentive Share Plan Terms and Conditions

TERMS & CONDITIONS OF EMPLOYEE INCENTIVE SHARE PLAN	
FEATURE	DESCRIPTION
Eligibility	Directors, employees, and contractors are eligible to participate.
Administration of Plan	The Board is responsible for the operation of the Share Plan and has broad discretion to administer the plan.
Issue Price	Determined by the Board.
Vesting Condition	Except in the case of Directors, the KMP and other employees must meet plan conditions including current employment, and eligibility. May vest under special conditions including death & disability, retirement, or redundancy.
Resignation	Unvested shares lapse at the time of resignation unless determined by the Board. Shares will vest pro rata to the proportion of the period from the date of issue to the date of resignation and must be Board approved.
Hedging	Hedging prohibited
Forfeiture	Forfeiture can occur under conditions that include: <ul style="list-style-type: none"> • Plan vesting conditions not satisfied • Participant no longer an eligible participant • Board discretion to cancel the plan • Change of control or a winding up resolution or order is made, and the Board does not waive the vesting condition.
Malus & Claw Back	Forfeiture due to fraud, dishonesty, or other improper behaviour
Restriction on Transfer	Transfers not permitted unless the sale, transfer or disposal requires the preparation of a disclosure document
Quotation on ASX	Plan shares quoted on ASX and subject to the Listing Rules, as well as any holding lock applying to that applies to the shares.
Rights Attaching to Plan Shares	Same terms and conditions as the Company's issued shares (other than plan transfer restrictions). Shares will have equal rank with all other issued Shares from the issue date (except for entitlements which have a record date before the issue date)
Appointment of Trustee	The Board retains discretion for Shares to be held by a Trustee on trust, and the Board maintains power to approve or deny application to withdraw Shares held by the Trustee on their behalf.
Maximum Number of Shares	8,395,387 Shares (being, 5% of the issued capital of the Company post IPO on a fully diluted basis).

Table 11: Summary of LTI Share plan terms and conditions FY 2021

Performance Rights and Options Plan Terms and Conditions

TERMS & CONDITIONS - EMPLOYEE INCENTIVE PERFORMANCE RIGHTS AND OPTIONS PLAN	
FEATURE	DESCRIPTION
Eligibility	Directors, employees (full time and part time) and key contractors are eligible to participate.
Entitlement	Each Option entitles the holder to subscribe for one Share upon exercise of the Option
Issue Price	Nil cash consideration. Unless the Options are quoted on the ASX, Options issued will be issued for no more than nominal cash consideration.
Options Exercise Price	Determined by the Board
Vesting Conditions	An Award may be made subject to vesting conditions as determined by the Board in its discretion and as specified in the offer for the Awards. Shares may vest under special conditions including death & disability, retirement or redundancy or other special circumstances including financial hardship.
Not Transferable	Subject to the Listing Rules, Awards are only transferrable in Special Circumstances with the prior written consent of the Board (which may be withheld in its absolute discretion) or by force of law upon death, to the Participant's legal personal representative or upon bankruptcy to the participant's trustee in bankruptcy.
Shares	Shares resulting from the exercise of the Awards shall, rank on equal terms with all other Shares on issue.
Quotation of Shares	Within 10 Business Days of the later of the date the Shares are issued and the date any Restriction Period applying to the Shares ends.
No Participation Rights	There are no participation rights or entitlements inherent in the Awards and Participants will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Awards without exercising the Award.
Hedging	Hedging prohibited
Forfeiture & Lapsing	<p>Forfeiture can occur under conditions that include:</p> <ul style="list-style-type: none"> • Plan vesting conditions not satisfied. • Participant no longer an eligible participant. • Board discretion to cancel the plan. <p>Change of control or a winding up resolution or order is made, and the Board does not waive the vesting condition</p>
Malus & Claw Back	Forfeiture due to fraud, dishonesty, or other improper behaviour
Good Leaver	<p>Subject to the terms of an Offer, where a Participant becomes a Good Leaver:</p> <ul style="list-style-type: none"> • Options will continue in force and remain exercisable until the Expiry Date • Performance Rights held will continue in force and remain exercisable. <p>The Board has discretion to allow some or all of unvested awards to be held with the remainder lapsing.</p>
Bad Leaver	Unless determined by the Board otherwise, if Bad Leaver determined, all vested Awards not yet exercised will remain in force and exercisable until 1 month after termination date thereafter automatic lapse will occur.
Change in Exercise price of no. underlying securities	No right to a change in exercise price or in the number of underlying Shares over which the Award can be exercised.

Re-organisation	Rights consistent with the Corporations Act and the Listing Rules at the time of the reorganisation.
Cashless exercise	In lieu of paying the aggregate Exercise Price, the Board may, permit holder to receive, without payment of cash or other consideration, (upon surrender) a number of Shares determined in accordance with the following formula: $A = [B \times (C - D)] / C$ where: A = the number of Shares (rounded down to the nearest whole number) to be issued to the Participant. B = the number of Shares otherwise issuable upon the exercise of the Option or portion of the Options being exercised. C = the market value of one Share; and D = the Exercise Price.
Amendments	The Board may make amendments subject to plan rules, the Corporations Act, Listing Rules, and any other applicable law
Maximum Number of Securities	16,790,774 Securities (being 10% of the issued capital post IPO on a fully diluted basis at listing assuming the Maximum Subscription is raised public the offer).

Table 12: Summary of LTI Performance Rights and Options Plan FY 2021.

Long Term Incentive Plan Commitments

Prior to listing, KMP LTI arrangements were also negotiated on different terms and conditions. Table 13 details the individual Executive KMP LTI arrangements. The commitments outlined are one off and reflect listing incentives and foregone incentive commitments.

EXECUTIVE KMP LTI EQUITY ARRANGEMENTS 2021					
	EQUITY VEHICLE	ISSUE PRICE	VESTING PERIOD	QUANTUM	VALUE OF AWARD
Mohan Jesudason <i>Group CEO</i>	Shares	\$ Nil	Immediately upon award	9,323,448	\$1,165,431
Keith Jelley <i>COO & Joint CoSec</i>	Shares	\$ Nil	Immediately upon award	3,603,384	\$450,423

Table 13: Executive KMP LTI Plan Arrangements FY 2021.

Remuneration Governance

The Role of the Board

Ultimately, the Board is responsible for the Company's remuneration policies and practices. The role of the Board is to ensure that appropriate and effective remuneration packages and policies are implemented to attract and retain high quality Executives and Non-Executives Directors, and to motivate Executives to create value for our shareholders.

When reviewing performance and determining incentive outcomes, the Board ensures that performance outcomes align with market-reported outcomes, management activity and shareholder outcomes. To achieve this alignment, the Board retains discretion over final performance and incentive outcomes and recognises that there are cases where adjustments should be sought.

The Board also monitors compliance with Board approved remuneration policies and practices and stays abreast of remuneration trends and the general external environment.

Remuneration Consultants

In accordance with section 206K of the Corporations Act 2001, the Board can engage remuneration consultants to receive information, advice, and recommendations directly from remuneration consultants to ensure remuneration recommendations are free of undue influence by management. In consultation with external remuneration consultants, the Company aims to provide a market competitive remuneration framework that is complementary to our remuneration strategy.

No remuneration recommendations were made in 2021, however KMP remuneration was benchmarked using independent market data.

Non-Executive Director Benefits

Independent Non-Executive Directors

In preparation for listing, an independent Board was appointed on the 8th of February 2021. The independent Non-Executive Director fees are paid from an aggregate annual fee pool of \$400,000, as approved by shareholders on the 30th of March 2021. Fees and payments to independent Non-Executive Directors reflect their responsibilities and the demands that are made on the Non-Executive Directors. Details are set out in Table 14.

INDEPENDENT DIRECTORS	ANNUAL FEES	
	2021 ANNUAL BASIS	2021 ACTUALS ²
Chairman ³	\$109,500	\$88,354
Non-Executive Director	\$50,000	\$19,589
Audit & Risk Committee Chair	No additional fee	\$19,589
Audit & Risk Committee Member	No additional fee	\$19,589

Table 14: Non-Executive Director fees including superannuation

All Directors are entitled to reimbursement for reasonable travel, accommodation, and other expenses in attending meetings and carrying out their duties. Non-Executive Directors were also entitled to participate in the Employee Incentive Plans in 2021. Director participation is not subject to Company business performance criteria or conditions.

Payment to Former Directors

Prior to the appointment of the independent Board, the Board consisted of 3 Directors who represented the major shareholders. The Directors approved the appointment of the Independent Board Directors, and all former Directors resigned by the 12th of February 2021.

In lieu of fees, the former Chair (Michael An) was awarded equity prior to listing. The former Chair's nominee was issued 682,746 fully paid ordinary shares (post consolidation) for nil cash consideration for services provided to the Company. Further details can be found in Note 30 of the financial statements.

Non-Executive Directors Equity

Prior to listing, Non-Executive Directors were able to take part in the Company's Long Term Incentive Plan as part of their remuneration. Non-Executive Directors were awarded Performance Rights to ensure alignment with the Company goals in the initial phase of the Companies listing. Non-Executive Directors were awarded Shares in 2021 and will be awarded options under the Prospectus Offers in 2022. Shares and options issued to Directors are not subject to any business performance conditions and the amount is not material enough to influence independence.

Non-Executive Director Minimum Shareholding Requirements

There is no minimum shareholding requirement for Non-Executive Directors, however, all Non-Executive Directors are shareholders.

² Remuneration for year ended 30th of June 2021 including superannuation (pro rata from date appointed - 8th of February 2021).

³ Includes monthly consulting fees of \$7,575.75 ex GST paid from 1st of August 2020 to 31st of January 2021 totaling \$45,455.

KMP Statutory Disclosures

KMP Remuneration

The following tables detail the KMP remuneration expense recognised for the current and previous financial year.

DIRECTORS	CASH SALARY & FEES	CASH BONUS	SUPER	LONG SERVICE LEAVE	EQUITY SETTLED	TOTAL
2021						
Alan Stockdale ⁴	\$84,362	-	\$3,722	-	\$72,068	\$160,422
Jodie Leonard ⁵	\$17,889	-	\$1,700	-	\$36,034	\$55,623
Damien Johnston ⁶	\$17,889	-	\$1,700	-	\$36,034	\$55,623
John Stewart ⁷	\$17,889	-	\$1,700	-	\$36,034	\$55,623
Michael An ⁸	-	-	-	-	\$124,943	\$124,943
Narender Lakhwani ⁹	-	-	-	-	-	-
Lee Mayberry ¹⁰	-	-	-	-	-	-
Total	\$138,299	\$0	\$8,822	\$0	\$305,113	\$452,234
2020¹¹						
Alan Stockdale	-	-	-	-	-	-
Jodie Leonard	-	-	-	-	-	-
Damien Johnston	-	-	-	-	-	-
John Stewart	-	-	-	-	-	-
Michael An	-	-	-	-	-	-
Narender Lakhwani	-	-	-	-	-	-
Lee Mayberry	-	-	-	-	-	-
Total	\$0	\$0	\$0	\$0	\$0	\$0

Table 15: Non-Executive Director Remuneration expense for FY 2021 and FY 2020.

EXECUTIVE KMP	CASH SALARY & FEES	CASH BONUS	SUPER	LONG SERVICE LEAVE	EQUITY SETTLED	TOTAL
2021						
Mohan Jesudason	\$465,704	-	\$21,694	\$33,948	\$1,165,431	\$1,686,777
Keith Jelley	\$262,597	\$172,000	\$21,694	\$14,102	\$450,423	\$920,816
Total	\$728,300	\$172,000	\$43,388	\$48,050	\$1,615,854	\$2,607,593
2020¹² (1 Feb - 30 Jun)						
Mohan Jesudason	\$177,717	-	\$8,751	\$5,912	-	\$192,380
Keith Jelley	\$94,972	-	\$8,751	\$4,409	-	\$108,132
Total	\$272,689	\$0	\$17,502	\$10,321	\$0	\$300,512

Table 16: Executive KMP Remuneration \$ for FY 2021 and FY 2020.

4 Appointed 8th of February 2021. Prior to his appointment, Mr. Stockdale received monthly consulting fees of \$7,575.75 excluding GST from 1st of August 2020 until the 31st of January 2021, totaling \$45,455. This has been disclosed in the "Cash salary and fees" column.

5 Appointed 8th of February 2021.

6 Appointed 8th of February 2021.

7 Appointed 8th of February 2021.

8 The Company issued Mr. An's nominee Null Cipher 720,000 fully paid ordinary shares on the 12th of February 2021 (259,201 post the share consolidation on the 7th of June 2021) and 423,546 fully paid ordinary shares on the 30th of June 2021 as compensation for Chairman and Director services rendered. Mr. An resigned on the 12th of February 2021.

9 No remuneration was received in 2021. Mr. Lakhwani resigned on the 17th of November 2020.

10 No remuneration was received in 2021. Mr. Mayberry resigned on the 8th of February 2021.

11 Directors did not receive income in 2020.

12 Although the Company was incorporated on the 9th of December 2019, Mr. Jesudason & Mr. Jelley commenced their employment on the 1st of February 2020.

KMP Shareholdings

The tables below detail the number of ordinary shares and options in X2M that were held during the financial year by key management personnel, including their related parties.

Movement in Ordinary Shares and Options

The movement during the reporting period in the number of ordinary shares held, directly, indirectly, or beneficially, by each KMP, including their related parties follows:

TOTAL KMP SHAREHOLDINGS EARNED AS REMUNERATION 2021					
ORDINARY SHARES 2021	BALANCE AT START	RECEIVE AS PART OF REMUNERATION POST CONSOLIDATION	ADDITIONS	DISPOSALS & OTHER	BALANCE AT THE END OF THE PERIOD
<i>Directors</i>					
Alan Stockdale	-	576,541	-	-	576,541
Jodie Leonard	-	288,271	-	-	288,271
Damien Johnston	-	288,271	-	-	288,271
John Stewart	-	288,271	-	-	288,271
Michael An ¹³	-	682,746	-	(682,746)	-
Narender Lakhwani	-	-	-	-	-
Lee Mayberry	-	-	-	-	-
<i>Executive KMP</i>					
Mohan Jesudason	-	9,323,448	-	-	9,323,448
Keith Jelley	-	3,603,384	-	-	3,603,384
Total	-	14,627,386	-	(682,746)	14,368,186

Table 17: Total KMP Shareholdings (post consolidation) received as part of FY 2021 remuneration.

Shares and Options Outstanding

Table 18 sets out the grants and outstanding number of shares for KMP. No amounts were paid or are payable by the recipient on receipt of the shares.

OUTSTANDING KMP SHARE RIGHTS					
	AWARD	GRANT DATE	SHARES ¹⁴	FAIR VALUE PER SHARE	VALUE
<i>Directors</i>					
Alan Stockdale	2021 Tranche 1	24/03/2021	218,880	\$0.125	\$27,360
	2021 Tranche 2	30/06/2021	357,661	\$0.125	\$44,708
Jodie Leonard	2021 Tranche 1	24/03/2021	109,440	\$0.125	\$13,680
	2021 Tranche 2	30/06/2021	178,831	\$0.125	\$22,354
Damien Johnston	2021 Tranche 1	24/03/2021	109,440	\$0.125	\$13,680
	2021 Tranche 2	30/06/2021	178,831	\$0.125	\$22,354
John Stewart	2021 Tranche 1	24/03/2021	109,440	\$0.125	\$13,680
	2021 Tranche 2	30/06/2021	178,831	\$0.125	\$22,354
Michael An ¹⁵	2021 Tranche 1	12/02/2021	259,200	\$0.278	\$72,000
	2021 Tranche 2	30/06/2021	423,546	\$0.125	\$52,943

¹³ Mr An resigned on 12 February 2021. The balance disclosed in Disposals/Other represents all shares issued to him in the period

¹⁴ Shares are on a post consolidation basis and have nil tax value as they were issued under the Employee Share Scheme Start Up Concession. The fair value per share reflects the accounting value of the shares.

¹⁵ The shares issued to Mr. An's nominee are on a post consolidation basis and have nil tax value as they were issued under the Employee Share Scheme Start Up Concession. The fair value per share reflects the accounting value of the shares.'

OUTSTANDING KMP SHARE RIGHTS (CONTINUED)					
	AWARD	GRANT DATE	SHARES ¹⁶	FAIR VALUE PER SHARE	VALUE
Executive KMP					
Mohan Jesudason ¹⁷	2021 Tranche 1	25/03/2021	4,104,000	\$0.125	\$513,000
	2021 Tranche 2	2/07/2021	5,219,448	\$0.125	\$652,431
Keith Jelley	2021 Tranche 1	24/03/2021	1,440,000	\$0.125	\$180,000
	2021 Tranche 2	30/06/2021	2,163,384	\$0.125	\$270,423

Table 18: Outstanding KMP Shares

All shares are restricted for 3 years from date of issue. No options were granted in FY 2021.

Other Services Obtained from Related Parties

a) Consulting Services Provided prior to Appointment to Independent Board

Prior to being appointed as the Chair of the Company, Mr. Stockdale acted in a consulting capacity to the Company. EC Strategies Pty Ltd was paid fees of \$7,575.75 (ex GST) from 1st of August 2020 to 31st of January 2021 totaling \$45,455, for consulting services provided by Mr. Stockdale. See Note 30 of the financial report for further details.

b) Reimbursement to Executive KMP

In June 2021, X2M paid \$70,000 to the CEO Mr. Mohan Jesudason for reimbursement of past costs. The company also paid \$16,000 for graphic design and supporting services to Azimbo Consulting Pty Ltd, an entity associated with the COO, Keith Jelley. The transactions were made on normal commercial terms.

c) Loans to KMP and Their Related Parties

No loans were provided from the Company to any key management person or their related parties in 2021.

d) Loans from KMP and Their Related Parties to the Company

Michael An is a Director of Perle Ventures Pty Ltd and was a Director of X2M Connect Limited until 12th of February 2021. Perle Ventures engaged in a number of dealings with X2M during the current year and the previous period. Perle Ventures subscribed to convertible notes in the prior period on similar terms to other convertible notes issued at that time (see note 19) and which were converted in the current year, and they participated in loan funding and other transactions all in a total amount of \$1,471,967. As at 30 June 2021, there was an outstanding balance of \$329,460 to Perle Ventures Pty Ltd which was extinguished on 26th of July 2021.

There were no other related party transactions.

¹⁶ Shares are on a post consolidation basis and have nil tax value as they were issued under the Employee Share Scheme Start Up Concession. The fair value per share reflects the accounting value of the shares.

¹⁷ On the 1st of July 2021, Mr. Jesudason was issued 5,219,448 fully paid ordinary shares at a fair value per share price of \$0.125 (per share). The service commencement date of these shares deemed to be 1st of July 2020.

AUDITORS INDEPENDENCE DECLARATION



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Auditor's Independence Declaration

To the Directors of X2M Connect Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of X2M Connect for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 30 September 2021

Grant Thornton Audit Pty Ltd ACN 130 913 594
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2021 FINANCIAL REPORT

Income Statement

X2M Connect Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

		Consolidated	
	Note	2021 \$	9 December 2019 to 30 June 2020 \$
Revenue	6	5,700,396	1,314,138
Other income	7	819,279	179,912
Total revenue and other income		<u>6,519,675</u>	<u>1,494,050</u>
Expenses			
Cost of sales		(4,074,487)	(551,734)
Employee benefits expense	8	(6,694,253)	(1,281,823)
Depreciation and amortisation expense	8	(1,244,792)	(386,283)
Finance costs	8	(161,084)	(113,007)
Telephone expenses		(205,055)	(89,688)
Short-term lease expenses		(101,779)	(65,925)
Other expenses		(1,089,671)	(272,645)
Professional fees		(866,441)	(183,697)
IPO expenses		(681,534)	-
Total expenses		<u>(15,119,096)</u>	<u>(2,944,802)</u>
Loss before income tax benefit		(8,599,421)	(1,450,752)
Income tax benefit	9	344,307	62,554
Loss after income tax benefit for the period attributable to the owners of X2M Connect Limited		(8,255,114)	(1,388,198)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(260,670)	23,813
Other comprehensive income for the period, net of tax		(260,670)	23,813
Total comprehensive income for the period attributable to the owners of X2M Connect Limited		<u>(8,515,784)</u>	<u>(1,364,385)</u>
		Cents	Cents
Basic earnings per share	36	(12.21)	(3.25)
Diluted earnings per share	36	(12.21)	(3.25)

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

Statement of financial position

X2M Connect Limited
Statement of financial position
As at 30 June 2021

	Note	Consolidated 2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents	10	1,952,842	302,092
Trade and other receivables	11	204,826	520,856
Contract assets	12	237,483	437,759
Inventories	13	76,317	269,043
Other assets	14	1,506,599	638,976
Total current assets		<u>3,978,067</u>	<u>2,168,726</u>
Non-current assets			
Property, plant and equipment and right-of-use assets	15	632,856	1,306,672
Intangible assets	16	2,196,687	1,761,502
Other assets	14	128,021	256,118
Total non-current assets		<u>2,957,564</u>	<u>3,324,292</u>
Total assets		<u>6,935,631</u>	<u>5,493,018</u>
Liabilities			
Current liabilities			
Trade and other payables	17	2,044,068	1,108,204
Contract liabilities	18	1,070,696	7,798
Borrowings	19	2,408,423	4,483,548
Lease liabilities	22	129,056	62,943
Derivative financial instruments	20	31,488	112,000
Employee benefits	21	675,331	266,479
Provisions		28,540	87,847
Total current liabilities		<u>6,387,602</u>	<u>6,128,819</u>
Non-current liabilities			
Lease liabilities	22	113,232	64,273
Deferred tax liabilities	9	-	346,066
Employee benefits	21	249,577	317,985
Total non-current liabilities		<u>362,809</u>	<u>728,324</u>
Total liabilities		<u>6,750,411</u>	<u>6,857,143</u>
Net assets/(liabilities)		<u>185,220</u>	<u>(1,364,125)</u>
Equity			
Issued capital	23	9,412,958	260
Reserves	24	415,574	23,813
Accumulated losses		(9,643,312)	(1,388,198)
Total equity/(deficiency)		<u>185,220</u>	<u>(1,364,125)</u>

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

Statement of changes in equity

X2M Connect Limited
Statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 9 December 2019	-	-	-	-
Loss after income tax benefit for the period	-	-	(1,388,198)	(1,388,198)
Other comprehensive income for the period, net of tax	-	23,813	-	23,813
Total comprehensive income for the period	-	23,813	(1,388,198)	(1,364,385)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 23)	260	-	-	260
Balance at 30 June 2020	<u>260</u>	<u>23,813</u>	<u>(1,388,198)</u>	<u>(1,364,125)</u>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2020	260	23,813	(1,388,198)	(1,364,125)
Loss after income tax benefit for the period	-	-	(8,255,114)	(8,255,114)
Other comprehensive income for the period, net of tax	-	(260,670)	-	(260,670)
Total comprehensive income for the period	-	(260,670)	(8,255,114)	(8,515,784)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 23)	2,013,000	-	-	2,013,000
Share-based payments (note 35)	1,419,725	652,431	-	2,072,156
Issue of shares on conversion of convertible notes	5,979,973	-	-	5,979,973
Balance at 30 June 2021	<u>9,412,958</u>	<u>415,574</u>	<u>(9,643,312)</u>	<u>185,220</u>

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

Statement of Cashflows

X2M Connect Limited
Statement of cash flows
For the year ended 30 June 2021

		Consolidated	
	Note	2021	9 December 2019 to 30 June 2020
		\$	\$
Cash flows from operating activities			
Receipts from customers		7,279,600	1,418,515
Receipts from government grants		497,178	-
Payments to suppliers and employees		(11,017,595)	(2,325,216)
Net cash used in operating activities	34	(3,240,817)	(906,701)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	4	-	(2,825,080)
Payments for intangibles	16	(776,738)	(258,037)
Proceeds from release of security deposits		128,097	-
Net cash used in investing activities		(648,641)	(3,083,117)
Cash flows from financing activities			
Proceeds from issue of shares	23	2,070,000	260
Cost of capital raising		(57,000)	-
Proceeds from convertible notes		2,800,000	4,200,000
Proceeds from borrowings		952,221	113,050
Repayment of lease liabilities (including interest)		(225,013)	(18,893)
Net cash from financing activities		5,540,208	4,294,417
Net increase in cash and cash equivalents		1,650,750	304,599
Cash and cash equivalents at the beginning of the financial period		302,092	-
Effects of exchange rate changes on cash and cash equivalents		-	(2,507)
Cash and cash equivalents at the end of the financial period	10	<u>1,952,842</u>	<u>302,092</u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes To Financial Statements

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 1. General information

X2M Connect Limited (the Company or X2M) is a company domiciled in Australia. It was originally incorporated on 9 December 2019. As such, the comparative reporting period is from the date of incorporation to 30 June 2020.

These are the consolidated financial statements of X2M, comprising X2M and its controlled entities (the Group).

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The 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.

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

Going concern

The consolidated financial report has been prepared on a going concern basis which contemplates continuity of normal business activities, funding of operating activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group recorded a loss after tax for the year ended 30 June 2021 of \$8,255,114 (2020 part comparative period: \$1,388,198) and cash outflows from operating activities of \$3,240,817 (2020 part comparative period: \$906,701) and as at 30 June 2021 the Group had a working capital deficiency, being current assets less current liabilities, of \$2,409,535 (2020: \$3,960,093). These results prima facie give rise to a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern. However, since 30 June 2021 the following material events have occurred:

- On 22 September 2021, the Group commenced trading on the Australian Securities Exchange after completing an \$8,000,000 (before costs) Initial Public Offering.
- The Group had \$1,500,000 of convertible notes accounted for as current liabilities as at 30 June 2021. These notes, together with \$500,000 of new convertible notes issued in early July 2021, were converted into fully paid ordinary shares on 14 July 2021.
- The Group had \$460,360 in borrowings as at 30 June 2021 which were subsequently repaid in July 2021.

In determining that the going concern assumption is appropriate, the Directors have prepared cash flow projections for the Group for the period until 30 September 2022. These cash flow projections support the Group's ability to continue as a going concern. These cash flow projections assume the Group's ability to achieve sales and prudent control on expenditures. If required, the Group has the ability to raise additional capital by one of a combination of the following: placement of shares, pro-rata issue to shareholders and/or further issue of shares to the public.

Based on these factors, it is the view of the Directors that the Group is sufficiently capitalised to continue as a going concern. The Directors acknowledge that this assessment incorporates a number of assumptions and judgements and have concluded that the range of possible outcomes considered in arriving at this support the Group's ability to continue as a going concern as at the date of this report.

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 Group not continue as a going concern.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 2. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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

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 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 3.

Foreign currency translation

The financial statements are presented in Australian dollars.

Foreign currency translation

Transactions in foreign currencies are translated into Australian dollars at the exchange rates at the dates of the transactions. Revenue and expenses that are denominated in a foreign currency are translated into Australian dollars using average exchange rates, published by the Reserve Bank of Australia.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency 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 the functional currency 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.

Parent entity information

These financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 31.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of X2M as at 30 June 2021 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 2. Significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in Australian dollars, which is X2M Connect Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Interest

Interest income 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.

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 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 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 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 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.

Derivative financial instruments

Hedges of a net investment

Hedges of a net investment in a foreign operation include monetary items that are considered part of the net investment. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity whilst gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 2. Significant accounting policies (continued)

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.

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets including intellectual property in progress to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

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.

Rounding of amounts

The Company is a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Note 3. 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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Initial Public Offering (IPO) costs

On 20 September 2021, the Group undertook an IPO to list on the ASX. Costs incurred that are directly attributable and incremental to the issuance of new equity (net of tax) have been recognised in equity as an offset to the value of capital raised. The Directors exercised judgement in determining an allocation methodology (between equity and expense) for costs which relate to both the issuance of new equity and other activities. The Group's methodology was determined with reference to the number of new shares issued in raising capital, and the nature and purpose of services rendered in incurring costs. All other costs were taken directly to the statement of profit or loss and other comprehensive income during the period.

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 Group based on known information. The Covid-19 pandemic had limited impact on X2M in 2021. The Company currently services the utility sector, which is relatively immune to external influences, including the pandemic. Because the utility sector remained operational, the Company was able to continue servicing customers and developing the sales pipeline. Management also adopted several proactive strategies that included establishing a virtual management operating rhythm, very tight control of discretionary expenses, and a number of supply chain initiatives to minimise any potential impact.

X2M will continue to adapt to the operating environment and manage risk appropriately as the impacts of the global pandemic continue to evolve.

Revenue from contracts with customers

When recognising revenue in relation to hardware sales to customers, the key performance obligation of the Group is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Recognised amounts of platform subscriptions revenue reflect the Group's best estimate of each contracts outcome and progress towards completion of performance obligations. Changes in estimates related to service revenue are recorded as an increase or decrease to revenue in the period that the changes are identified.

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.

Impairment of non-financial assets

The Group assesses impairment of non-financial assets including intellectual property in progress at each reporting date by evaluating conditions specific to the 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.

Note 4. Business combinations

X2M acquired the assets of Freestyle Technology Limited including its subsidiaries to build a business that drives and supports the digitisation of utility meters and sensors in the Asia Pacific region through the remote monitoring and control of such utility devices. The subsidiaries have established customer bases and operations in their jurisdictions that are the foundation of future growth that leverages the platform assets of the company.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 4. Business combinations (continued)

The Group consists of X2M Connect Limited and 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

*South Korean operations

The above mentioned companies, excluding Beijing Freestyle Technology Co., Ltd, were acquired by X2M Connect Limited on 26 February 2020 from Freestyle Technology Limited.

Details of the acquisition are as follows:

	Fair value \$
Cash and cash equivalents	174,920
Trade and other receivables	421,699
Contract assets	415,774
Inventories	212,493
Other assets	239,710
Property, plant and equipment and right-of-use assets	1,525,202
Trade and other payables	(897,714)
Employee benefits	(102,211)
Provisions (onerous contract)	(107,368)
Lease liabilities	(84,740)
Identifiable intangible assets recognised on acquisition (intellectual property, patents and copyright)	1,610,855
Deferred tax liability on intellectual property, patents and copyright	(408,620)
Net assets acquired	3,000,000
Goodwill	-
Acquisition-date fair value of the total consideration transferred	<u>3,000,000</u>
Representing:	
Cash paid or payable to vendor	3,000,000
Less: Cash and cash equivalents acquired	(174,920)
Net cash and cash equivalents on purchase of business	<u>2,825,080</u>

i. Consideration transferred

Acquisition-related legal costs are not included as part of the consideration for the acquisition and have been recognised as transaction costs in the statement of profit or loss and other comprehensive income.

ii. Identifiable net assets

The fair value of the trade receivables acquired as part of the business combination amounted to \$421,699. These receivables have subsequently been collected in 2021 financial year.

iii. Goodwill

There was no goodwill that arose from this business combination.

iv. Contingent consideration

There was no contingent consideration as part of this business combination.

v. Contribution to the Group's results

The acquired subsidiaries contributed revenue of \$1,060,684, EBITDA loss of \$550,984 and net loss before tax of \$1,890,836 to the Group from the date of the acquisition to 30 June 2020.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 4. Business combinations (continued)

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 5. Operating segments

Identification of reportable operating segments

The Consolidated Entity has identified its operating segments based on business activities in South Korea, China and Taiwan. These operating segments are based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing the performance and in determining the allocation of resources.

The principal continuing activities of the Consolidated Entity consisted of carrying on its business to deploy devices and connect them to its proprietary software platform, where the company generates upfront hardware revenue and platform subscription fees.

The Other segment comprises Australia, which is a cost centre for corporate costs including head office, R&D and software development; and Hong Kong and Japan.

Intersegment transactions

Intersegment transactions were made at market rates. These transactions included internal services provided by Australian head office to overseas subsidiaries and intersegment sales. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 5. Operating segments (continued)

Major customers

During the year ended 30 June 2021, three customers from South Korea contributed \$2,296,054, representing 40% of total external revenues. One customer from China contributed \$1,078,080, representing 19% of total external revenues.

Operating segment information

Consolidated - 2021	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Revenue					
Sales to external customers	3,778,735	1,088,774	547,219	285,668	5,700,396
Intersegment sales	122,139	-	-	-	122,139
Total sales revenue	3,900,874	1,088,774	547,219	285,668	5,822,535
Other income	2,603	418	26	816,232	819,279
Total segment revenue	3,903,477	1,089,192	547,245	1,101,900	6,641,814
Intersegment eliminations					(122,139)
Total revenue and other income					<u>6,519,675</u>
EBITDA	(1,108,544)	(201,604)	(924,016)	(2,205,691)	(4,439,855)
Depreciation and amortisation	(803,346)	(77,990)	(20,020)	(343,436)	(1,244,792)
EBIT	(1,911,890)	(279,594)	(944,036)	(2,549,127)	(5,684,647)
<i>Unallocated</i>					
Share based payments					(2,072,156)
IPO expenses					(681,534)
Finance costs					(161,084)
Income tax benefit					344,307
Loss after income tax benefit					<u>(8,255,114)</u>
Assets					
Segment assets*	2,064,136	824,901	333,795	3,712,799	6,935,631
Total assets					<u>6,935,631</u>
Liabilities					
Segment liabilities	3,006,383	1,031,528	650,568	2,061,932	6,750,411
Total liabilities					<u>6,750,411</u>

* The Group had \$521,755 non-current assets in South Korea segment and \$2,178,209 non-current assets in Australia.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 5. Operating segments (continued)

	South Korea	China	Taiwan	Other	Total
Consolidated - 9 December 2019 to 30 June 2020	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	1,020,116	-	29,118	264,904	1,314,138
Other income	48	2	13	179,849	179,912
Total revenue and other income	<u>1,020,164</u>	<u>2</u>	<u>29,131</u>	<u>444,753</u>	<u>1,494,050</u>
EBITDA	(84,373)	(1,575)	(239,234)	(626,280)	(951,462)
Depreciation and amortisation	(276,056)	-	(2,336)	(107,891)	(386,283)
EBIT	<u>(360,429)</u>	<u>(1,575)</u>	<u>(241,570)</u>	<u>(734,171)</u>	<u>(1,337,745)</u>
<i>Unallocated</i>					
Finance costs					(113,007)
Income tax benefit					62,554
Loss after income tax benefit					<u>(1,388,198)</u>
Assets					
Segment assets	2,534,794	1,261	305,389	2,651,574	5,493,018
Total assets					<u>5,493,018</u>
Liabilities					
Segment liabilities	1,596,403	4,697	368,447	4,887,596	6,857,143
Total liabilities					<u>6,857,143</u>

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 6. Revenue

	Consolidated	
	2021	9 December 2019 to 30 June 2020
	\$	\$
Platform subscriptions revenue	1,443,801	741,546
Hardware sales	4,139,630	572,592
Proof of concepts and development services revenue	116,965	-
Revenue	<u>5,700,396</u>	<u>1,314,138</u>

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 6. Revenue (continued)

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	9 December
	2021	2019 to 30
	\$	June 2020
		\$
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	4,139,630	572,592
Services transferred over time	1,560,766	741,546
	<u>5,700,396</u>	<u>1,314,138</u>

Accounting policy for revenue recognition

The 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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 6. Revenue (continued)

Type of product/service	Nature and timing of satisfaction of performance obligations
Platform subscription revenue	<p>The nature and timing of revenue recognition can differ between customers based on the deliverables and pricing of each customer's contract.</p> <p>Where a contract provides pricing for licence/subscription fees, revenue is recognised over the service period following the completion of hardware being installed.</p>
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.

Note 7. Other income

	Consolidated	
	9 December	
	2019 to 30	
	2021	June 2020
	\$	\$
Research and development tax credits	322,101	44,849
Government assistance	393,381	135,000
Export market development grant	100,000	-
Interest income	612	63
Other income	3,185	-
	<u>819,279</u>	<u>179,912</u>

Accounting policy for research and development tax credits and government assistance

Research and development tax credits and government assistance are recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Research and development tax credits are recognised as income once the Group is satisfied that the Group has complied with the conditions attached to the tax credits and that the tax credits will be received.

Government assistance represents the JobKeeper payments received/receivable from governments in response to the ongoing novel coronavirus (COVID-19) pandemic. Government assistance is recognised as income once the Group is satisfied that there are no unfulfilled conditions or other contingencies attaching to these amounts and that the assistance will be received.

Accounting policy for interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 8. Expenses

	Consolidated	
	2021	9 December 2019 to 30 June 2020
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	152,627	112,000
Interest on lease liabilities	8,457	1,007
Finance costs expensed	<u>161,084</u>	<u>113,007</u>
<i>Employee benefits expense</i>		
Salaries and wages expense	3,854,384	1,067,023
Share based payments (note 35)	2,072,156	-
Defined contribution expense	369,270	123,285
Short term incentives	154,576	28,569
Other employee benefits	243,867	62,946
Total employee benefits expense	<u>6,694,253</u>	<u>1,281,823</u>
<i>Depreciation and amortisation expense</i>		
Depreciation of property, plant and equipment	764,334	259,562
Depreciation of right-of-use assets	138,905	19,331
Amortisation of intangible assets	341,553	107,390
Total depreciation and amortisation expense	<u>1,244,792</u>	<u>386,283</u>

Note 9. Income tax

	Consolidated	
	2021	9 December 2019 to 30 June 2020
	\$	\$
<i>Income tax benefit</i>		
Current tax	-	-
Deferred tax	(344,307)	(62,554)
Aggregate income tax benefit	<u>(344,307)</u>	<u>(62,554)</u>
Deferred tax included in income tax benefit comprises:		
Decrease in deferred tax liabilities	(344,307)	(62,554)
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(8,599,421)	(1,450,752)
Tax at the statutory tax rate of 26% (2020: 27.5%)	(2,235,849)	(398,957)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	463,201	108,437
Difference in overseas tax rates	180,185	36,876
Current period tax losses not recognised (net of difference in overseas tax rates)	1,248,156	191,090
Income tax benefit	<u>(344,307)</u>	<u>(62,554)</u>

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 9. Income tax (continued)

	Consolidated	
	2021	2020
	\$	\$
<i>Carry forward tax losses not recognised</i>		
Carry forward tax losses not recognised comprise:		
Carry forward losses: X2M Connect Limited	717,885	-
Carry forward losses: Freestyle Technology Taiwan Limited (1)	414,269	322,727
Carry forward losses: Freestyle Technology Co., Ltd (2)	1,426,384	1,060,533
Carry forward losses: Freestyle Technology (Shanghai) Co., Ltd	138	-
Carry forward losses: Freestyle Technology Japan KK (2)	44,246	21,218
Carry forward losses: Beijing Freestyle Technology Co., Ltd	51,954	-
	<u>2,654,876</u>	<u>1,404,478</u>
Total carry forward tax losses not recognised		

The above carry forward tax losses have not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

(1) Tax losses may be carried forward for up to 10 years provided the entity keeps accounting records and files an annual corporate tax return that has been examined and certified by a local CPA within the prescribed period, both in the year the losses are incurred and the year the losses are utilised.

(2) Tax losses may be carried forward for up to 10 years, no restrictions on the amount of tax losses to be utilised in a fiscal year, on the basis the company is classified as a small or medium sized enterprise (SME).

	Consolidated	
	2021	2020
	\$	\$
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Intellectual property, patents and copyright	566,334	443,597
Employee benefits	(240,476)	(75,178)
Other	(325,858)	(22,353)
	<u>-</u>	<u>346,066</u>
Deferred tax liability		
Movements:		
Opening balance	346,066	-
Credited to profit or loss	(344,307)	(62,554)
Credited to equity	(1,759)	-
Additions through business combinations (note 4)	-	408,620
	<u>-</u>	<u>346,066</u>
Closing balance		

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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 9. Income tax (continued)

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.

Interpretation 23 requires the assessment of whether the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The interpretation outlines the requirements to determine whether any entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

The Group adopted Interpretation 23 from 1 July 2019, based on an assessment of whether it is "probable" that a taxation authority will accept and uncertain tax treatment. There has been no financial reporting impact from the adoption of Interpretation 23 in this or the previous reporting period.

Note 10. Cash and cash equivalents

	Consolidated	
	2021	2020
	\$	\$
<i>Current assets</i>		
Cash on hand	716	260
Cash at bank	1,952,126	301,832
	<u>1,952,842</u>	<u>302,092</u>

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 11. Trade and other receivables

	Consolidated	
	2021	2020
	\$	\$
<i>Current assets</i>		
Trade receivables	104,826	478,729
Other receivables (note 30)	100,000	42,127
	<u>204,826</u>	<u>520,856</u>

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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 11. Trade and other receivables (continued)

The 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 12. Contract assets

	Consolidated	
	2021	2020
	\$	\$
<i>Current assets</i>		
Contract assets	<u>237,483</u>	<u>437,759</u>
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial period are set out below:		
Opening balance	437,759	-
Additions	465,866	21,985
Additions through business combinations (note 4)	-	415,774
Transfer to trade receivables	<u>(666,142)</u>	<u>-</u>
Closing balance	<u>237,483</u>	<u>437,759</u>

Accounting policy for contract assets

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

Note 13. Inventories

	Consolidated	
	2021	2020
	\$	\$
<i>Current assets</i>		
Finished goods - at cost	<u>76,317</u>	<u>269,043</u>

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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 14. Other assets

	Consolidated	
	2021	2020
	\$	\$
<i>Current assets</i>		
Research and development tax credit receivables	905,895	244,514
Government assistance receivables	-	135,000
Prepayments	501,078	252,734
Other assets	99,626	6,728
	<u>1,506,599</u>	<u>638,976</u>
<i>Non-current assets</i>		
Deposits	128,021	256,118
	<u>1,634,620</u>	<u>895,094</u>

Note 15. Property, plant and equipment and right-of-use assets

	Consolidated	
	2021	2020
	\$	\$
<i>Non-current assets</i>		
Office equipment - at cost	18,933	18,698
Less: Accumulated depreciation	(2,948)	(1,059)
	<u>15,985</u>	<u>17,639</u>
Deployed infrastructure - at cost	1,281,404	1,421,764
Less: Accumulated depreciation	(903,474)	(258,503)
	<u>377,930</u>	<u>1,163,261</u>
Right-of-use assets (land & buildings) - at cost	396,688	145,103
Less: Accumulated depreciation	(157,747)	(19,331)
	<u>238,941</u>	<u>125,772</u>
	<u>632,856</u>	<u>1,306,672</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

Consolidated	Office equipment \$	Deployed infrastructure \$	Right-of-use assets (land & buildings) \$	Total \$
Balance at 1 July 2020	17,639	1,163,261	125,772	1,306,672
Additions (net of exchange differences)	-	-	252,074	252,074
Exchange differences	631	(23,282)	-	(22,651)
Depreciation expense	(2,285)	(762,049)	(138,905)	(903,239)
Balance at 30 June 2021	<u>15,985</u>	<u>377,930</u>	<u>238,941</u>	<u>632,856</u>

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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 15. Property, plant and equipment and right-of-use assets (continued)

The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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.

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 term of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life of 2-3 years. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The 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 of \$101,779 (2020 part comparative period: \$65,925) are expensed to profit or loss on a straight line basis.

Note 16. Intangible assets

	Consolidated	
	2021	2020
	\$	\$
<i>Non-current assets</i>		
Intellectual property, patents and copyright - at cost	1,610,855	1,610,855
Less: Accumulated amortisation	(448,943)	(107,390)
	<u>1,161,912</u>	<u>1,503,465</u>
Intellectual property in progress - at cost	<u>1,034,775</u>	<u>258,037</u>
	<u><u>2,196,687</u></u>	<u><u>1,761,502</u></u>

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 16. Intangible assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

Consolidated	Intellectual property, patents and copyright \$	Intellectual property in progress \$	Total \$
Balance at 1 July 2020	1,503,465	258,037	1,761,502
Capitalisation of expenses (net of exchange differences and tax credits)	-	776,738	776,738
Amortisation expense	(341,553)	-	(341,553)
Balance at 30 June 2021	<u>1,161,912</u>	<u>1,034,775</u>	<u>2,196,687</u>

Impairment Testing of Intangible balances

X2M holds intangible balances relating to intellectual property, patents and copyrights purchased in February 2020 and intangible balances relating to capitalised development costs. The recoverable amount of these intangibles has been determined based on costs.

The Group assessed indicators of impairment for these intangible assets. As at 30 June 2021, the carrying value of capitalised intellectual properties was \$2,196,687. Management assessed both internal and external information as described in paragraph 12 of AASB 136 *Impairment of Assets*.

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.

Intellectual property, patents and copyright

Costs associated with intellectual property, patents and copyright are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development, where applicable; and its costs can be measured reliably. At the election of the Group, costs are capitalised net of related tax credits under AASB 120.

Such costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Research costs are expensed in the period in which they are incurred.

Intellectual property in progress

Costs associated with intellectual property in progress are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development, where applicable; and its costs can be measured reliably. At the election of the Group, costs are capitalised net of related tax credits under AASB 120. Such costs will be amortised once the project is completed.

In-progress-intangibles are tested for impairment annually. Management references the entity's enterprise value, as set by dilutive capital raises (i.e. a market approach) to measuring the Fair Value less Costs of Disposal ("FVLCD") to determine the recoverable amount of the Cash Generating Unit (or Group of CGUs) ("CGU").

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 17. Trade and other payables

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Trade payables	695,746	562,809
Accrued expenses	1,348,322	545,395
	<u>2,044,068</u>	<u>1,108,204</u>

Refer to note 25 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period 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 18. Contract liabilities

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Contract liabilities	<u>1,070,696</u>	<u>7,798</u>

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial period are set out below:

Opening balance	7,798	-
Payments received in advance	1,743,604	7,798
Transfer to revenue - other balances	(680,706)	-
Closing balance	<u>1,070,696</u>	<u>7,798</u>

Accounting policy for contract liabilities

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

Note 19. Borrowings

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Insurance premium funding	36,142	-
Other borrowings	542,821	191,698
Related party borrowings (note 30)	329,460	91,850
Convertible notes	1,500,000	4,200,000
	<u>2,408,423</u>	<u>4,483,548</u>

Refer to note 25 for further information on financial instruments.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 19. Borrowings (continued)

Other 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. The interest rate on other borrowings ranges from 4%-18%. The other borrowings are classified as current as they are either currently due to be settled or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

Convertible notes that exhibit characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. Convertible notes accounted for as financial liabilities are measured at amortised cost until extinguished on conversion or redemption.

The Group issued \$4,200,000 of convertible notes in the prior period which were converted to ordinary shares on 11 March 2021. The terms of the notes at the time of conversion were as follows:

Maturity date	31 March 2022, can be extended to 31 March 2023 by the Company
Conversion	50% of IPO price or 50% of purchaser price for non-IPO events
Liquidity event	IPO or sale of all assets or sale of all shares
Interest rate	effective 15% per annum after maturity date until extended maturity date. Default interest rate of 25%
Security	Secured against the assets of the Company until converted/redeemed

The convertible notes of \$1,500,000 as at 30 June 2021 were converted to fully paid ordinary shares on 14 July 2021. The terms of the notes at the time of conversion were as follows:

Maturity date	31 December 2021
Conversion	60% of IPO price
Liquidity event	IPO
Interest rate	None if converted, 10% per annum if the notes did not convert. Default interest rate of 10%
Security	Secured against one or two patents of the Company per subscription agreement until converted/redeemed

Derivatives on convertible notes are accounted for separately. Refer to note 20 for further details.

Note 20. Derivative financial instruments

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Derivative on convertible notes	31,488	112,000

Refer to note 25 for further information on financial instruments.

Accounting policy for derivative financial instruments

The derivatives relate to the convertible notes issued during the period as disclosed in note 19. The conversion features that give rise to the recognition of the derivative include that the number of shares to be issued on conversion can vary.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 21. Employee benefits

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Employee benefits	675,331	266,479
<i>Non-current liabilities</i>		
Employee benefits	249,577	317,985
	<u>924,908</u>	<u>584,464</u>

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 22. Lease liabilities

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Lease liability	129,056	62,943
<i>Non-current liabilities</i>		
Lease liability	113,232	64,273
	<u>242,288</u>	<u>127,216</u>

Refer to note 25 for further information on financial instruments.

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 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.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 23. Issued capital

	2021 Shares	Consolidated		
		2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid	88,062,050	2,598	9,412,958	260

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	9 December 2019	1,000		100
Issue of shares	18 December 2019	598	\$0.100	60
Issue of shares	26 February 2020	1,000	\$0.100	100
Balance	30 June 2020	2,598		260
Share split	4 February 2021	50,800,480	-	-
Issue of incentive shares to a Director	12 February 2021	720,000	\$0.100	72,000
Issue of shares on convertible note conversions	11 March 2021	44,000,000	\$0.125	5,500,000
Issue of shares for cash consideration	24 March 2021	600,000	\$0.125	75,000
Issue of incentive shares to key management personnel and employees	24 March 2021	6,479,520	\$0.045	291,578
Issue of incentive shares to a key management personnel	25 March 2021	11,400,000	\$0.045	513,000
Issue of shares for cash consideration	4 June 2021	23,222,223	\$0.045	1,045,000
Issue of additional shares to convertible note holders	9 June 2021	63,547,437	-	-
Share consolidation at a ratio of 2.777777778	9 June 2021	(128,495,164)	-	-
Issue of share from pre-IPO capital raise	23 June 2021	7,600,000	\$0.125	950,000
Issue of shares on loan conversions and establishment fees	23 June 2021	3,839,780	\$0.125	479,973
Issue of incentive shares to Directors, employees and others	30 June 2021	4,345,176	\$0.125	543,147
Cost of capital raising		-	-	(57,000)
Balance	30 June 2021	88,062,050		9,412,958

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 23. Issued capital (continued)

The Group might look to raise capital to fund further growth or when an opportunity to invest in a business or company was seen as value adding shareholder value. The Group will continue to assess investments which create shareholder value.

Accounting policy for issued capital
 Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 24. Reserves

	Consolidated	
	2021	2020
	\$	\$
Foreign currency reserve	(236,857)	23,813
Share-based payments reserve	652,431	-
	<u>415,574</u>	<u>23,813</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial period are set out below:

Consolidated	Foreign currency reserve \$	Share-based payments reserve \$	Total \$
Balance at 9 December 2019	-	-	-
Foreign currency translation	23,813	-	23,813
Balance at 30 June 2020	23,813	-	23,813
Foreign currency translation	(260,670)	-	(260,670)
Share based payments*	-	652,431	652,431
Balance at 30 June 2021	<u>(236,857)</u>	<u>652,431</u>	<u>415,574</u>

* Shares were issued on 2 July 2021 and transferred from share based payments reserve to issued capital at that time.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 25. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Derivatives are not currently used by the Consolidated Entity for hedging purposes. The Consolidated Entity does not speculate in the trading of derivative instruments.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. However, given the Group generates and holds significant balances of foreign currencies, the Group foreign currency risk exposure are mitigated through natural hedging.

The carrying amount in Australian dollars of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2021	2020	2021	2020
	\$	\$	\$	\$
Korean Won (KRW)	982,291	311,655	(413,486)	(735,295)
Japanese Yen (JPY)	6,532	52,654	(11,074)	(53,074)
Taiwan dollars (TWD)	26,106	67,132	(145,598)	(85,177)
Chinese Renminbi (CNY)	214,917	610	(423,347)	(123)
United States dollars (USD)	305,932	-	-	-
Hong Kong dollars (HKD)	4,684	651	-	-
	<u>1,540,462</u>	<u>432,702</u>	<u>(993,505)</u>	<u>(873,669)</u>

Sensitivity

The Group is primarily exposed to changes in KRW, JPY, TWD, CNY, USD, HKD exchange rates. The sensitivity of profit or loss to changes in these exchange rates arises mainly from financial assets and liabilities.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 25. Financial instruments (continued)

Consolidated - 2021	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Net KRW denominated financial assets	10%	(56,881)	56,881	10%	56,881	(56,881)
Net JPY denominated financial liabilities	10%	454	(454)	10%	(454)	454
Net TWD denominated financial liabilities	10%	11,949	(11,949)	10%	(11,949)	11,949
Net CNY denominated financial liabilities	10%	20,843	(20,843)	10%	(20,843)	20,843
Net USD denominated financial assets	10%	(30,593)	30,593	10%	30,593	(30,593)
Net HKD denominated financial assets	10%	(468)	468	10%	468	(468)
		<u>(54,696)</u>	<u>54,696</u>		<u>54,696</u>	<u>(54,696)</u>
Consolidated - 2020	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Net KRW denominated financial liabilities	10%	42,364	(42,364)	10%	(42,364)	42,364
Net JPY denominated financial liabilities	10%	42	(42)	10%	(42)	42
Net TWD denominated financial liabilities	10%	1,805	(1,805)	10%	(1,805)	1,805
Net CNY denominated financial assets	10%	(49)	49	10%	49	(49)
Net HKD denominated financial assets	10%	(65)	65	10%	65	(65)
		<u>44,097</u>	<u>(44,097)</u>		<u>(44,097)</u>	<u>44,097</u>

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group is not exposed to any significant interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 25. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2021	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	2,044,068	-	-	-	2,044,068
<i>Interest-bearing - fixed rate</i>						
Related party borrowings	18.00%	329,460	-	-	-	329,460
Insurance premium funding	3.95%	36,142	-	-	-	36,142
Other borrowings	7.55%	542,821	-	-	-	542,821
Convertible notes payable	10.00%	1,500,000	-	-	-	1,500,000
Total non-derivatives		4,452,491	-	-	-	4,452,491

Consolidated - 2020	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	1,108,204	-	-	-	1,108,204
Convertible note payable	-	4,200,000	-	-	-	4,200,000
<i>Interest-bearing - fixed rate</i>						
Related party borrowings	18.00%	91,850	-	-	-	91,850
Other borrowings	28.50%	191,698	-	-	-	191,698
Total non-derivatives		5,591,752	-	-	-	5,591,752

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Due to the short term nature of the financial instruments, their carrying value is assumed to approximate their fair value.

Note 26. Key management personnel disclosures

Directors

The following persons were directors of X2M Connect Limited during the financial period:

Alan Stockdale	Non-Executive Chairman (appointed on 8 February 2021)
Jodie Leonard	Non-Executive Director (appointed on 8 February 2021)
Damien Johnston	Non-Executive Director (appointed on 8 February 2021)
John Stewart	Non-Executive Director (appointed on 8 February 2021)
Michael An	Non-Executive Director (resigned on 12 February 2021)
Narender Lakhwani	Non-Executive Director (resigned on 17 November 2020)
Lee Mayberry	Non-Executive Director (resigned on 8 February 2021)

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 26. Key management personnel disclosures (continued)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial period:

Mohan Jesudason	Chief Executive Officer
Keith Jelley	Chief Operating Officer

Compensation

The aggregate compensation paid to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	9 December	
	2019 to 30	
	2021	June 2020
	\$	\$
Short-term employee benefits	1,038,599	272,689
Post-employment benefits	52,210	17,502
Long-term benefits	48,050	10,321
Share-based payments	1,920,967	-
	<u>3,059,826</u>	<u>300,512</u>

Note 27. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Grant Thornton, the auditor of the Company, and its network firms:

	Consolidated	
	9 December	
	2019 to 30	
	2021	June 2020
	\$	\$
<i>Audit services</i>		
Audit or review of the financial statements	155,677	40,000
<i>Other services*</i>		
Tax compliance	27,425	-
Due diligence	70,616	-
Export Market Development Grant application	10,750	-
	<u>108,791</u>	<u>-</u>
	<u>264,468</u>	<u>40,000</u>
<i>Other services - network firms</i>		
Due diligence	<u>10,180</u>	<u>-</u>

* X2M engages Grant Thornton to provide permitted non-audit services where there is a compelling reason to do so provided auditor independence requirements are satisfied.

Note 28. Contingent liabilities

The Directors are not aware any contingent assets or contingent liabilities as at 30 June 2021 (2020: Nil).

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 29. Commitments

The Group had no material commitments not accounted for in the statement of financial position as at 30 June 2021 (2020: Nil).

Note 30. Related party transactions

Parent entity

X2M Connect Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

Transactions with related parties

Michael An is a Director of Perle Ventures Pty Ltd and was a Director of X2M Connect Limited until 12 February 2021. Perle Ventures Pty Ltd engaged in a number of dealings with X2M Connect Limited during the current year and the previous period. Perle Ventures Pty Ltd subscribed to convertible notes in the prior period on similar terms to other convertible notes issued at that time (see note 19) and which were converted in the current year, participated in loan funding and other transactions all in a total amount of \$1,471,967. As at 30 June 2021, there was an outstanding balance of \$329,460 to Perle Ventures Pty Ltd which was extinguished on 26 July 2021.

Michael An's nominee Null Cipher was issued 720,000 fully paid ordinary shares on 12 February 2021 (259,201 post share consolidation on 7 June 2021) and 423,546 fully paid ordinary shares on 30 June 2021 as compensation for Chairman and Director services rendered to X2M Connect Limited. No other remuneration has been paid to Michael An, Narender Lakhwani or Lee Mayberry.

Alan Stockdale is the controller of EC Strategies Pty Ltd. EC Strategies Pty Ltd provided consultancy services of Alan Stockdale worth \$45,455 to X2M Connect Limited from 1 August 2020 to 31 January 2021.

In June 2021, X2M paid \$70,000 to Mr Mohan Jesudason for reimbursement of past costs he had paid on behalf of the Company. The company also paid \$16,000 for graphic design and supporting services from Azimbo Consulting Pty Ltd (an entity associated with Keith Jelley, X2M Chief Operating Officer). The transactions were made on normal commercial terms.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2021	2020
	\$	\$
Current receivables:		
Loan to other related party*	100,000	-
Current borrowings:		
Other borrowings - Perle Ventures Pty Ltd	329,460	91,850
Convertible notes - Perle Ventures Pty Ltd	-	515,616

* During the financial year, X2M provided a loan of \$100,000 to an employee (note 11). There was no interest payable on the loan and it was subsequently repaid in August 2021.

Terms and conditions

Except for the loan provided to an employee, all transactions were made on normal commercial terms and conditions and at market rates.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 31. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2021	Parent 9 December 2019 to 30 June 2020
	\$	\$
Loss after income tax	(8,524,037)	(1,364,385)
Total comprehensive income	(8,524,037)	(1,364,385)

Statement of financial position

	2021	Parent 2020
	\$	\$
Total current assets	1,647,521	835,247
Total assets	1,671,777	3,329,056
Total current liabilities	1,459,127	4,220,483
Total liabilities	1,486,557	4,693,181
Equity		
Issued capital	9,412,698	260
Share-based payments reserve	652,431	-
Accumulated losses	(9,879,909)	(1,364,385)
Total equity/(deficiency)	<u>185,220</u>	<u>(1,364,125)</u>

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Freestyle Energy Two Pty Ltd	Australia	100%	100%
Freestyle Technology Taiwan Limited	Taiwan	100%	100%
Freestyle Technology Co., Ltd	South Korea	100%	100%
Golden Sino Hong Kong Limited	Hong Kong	100%	100%
Freestyle Technology (Shanghai) Co., Ltd	China	100%	100%
Freestyle Technology Japan KK	Japan	100%	100%
Beijing Freestyle Technology Co., Ltd - incorporated on 29 April 2020	China	100%	100%

The above mentioned companies, excluding Beijing Freestyle Technology Co., Ltd, were acquired by X2M Connect Limited on 26 February 2020 from Freestyle Technology Limited.

Note 33. Events after the reporting period

On 2 July 2021, the Company issued 5,219,448 fully paid ordinary shares to a key management personnel under the Company's employee incentive scheme.

On 7 July 2021 and 8 July 2021, the Company received \$200,000 and \$300,000 funding respectively in the form of a convertible note. These convertible notes, together with \$1,500,000 convertible notes issued in June 2021, were converted to issued capital on 14 July 2021.

On 14 July 2021, the Company issued 1,486,704 fully paid ordinary shares to a key management personnel under the Company's employee incentive scheme.

On 16 July 2021, the Company issued 9,411,283 unlisted options to two key management personnel. These options had an exercise of \$0.25 (25 cents), expiring 15 July 2025.

On 14 September 2021, the Company issued the following securities upon completion of the Public Offer under a Replacement Prospectus lodged with ASIC:

- 32,000,000 fully paid ordinary shares at an issue price of \$0.25 (25 cents), raising \$8,000,000 before costs.
- 5,408,029 unlisted options under the Employee Options Offer, exercisable at \$0.3575 (35.75 cents) each. These options were subject to the satisfaction of vesting conditions, expiring 13 September 2025.
- 9,559,588 unlisted options under the Executive Options Offer, vesting immediately on issue. These options were exercisable at \$0.3575 (35.75 cents) each, expiring 13 September 2025.
- 3,292,308 unlisted options to Lead Manager in two tranches:
 - Tranche 1: 1,646,154 options, vesting immediately on issue, exercisable at \$0.25 (25 cents) each, expiring 13 September 2024.
 - Tranche 2: 1,646,154 options, vesting immediately on issue, exercisable at \$0.3125 (31.25 cents) each, expiring 13 September 2024.

On 22 September 2021, the Company commenced trading as a listed company on Australian Securities Exchange (ASX).

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 34. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2021	9 December 2019 to 30 June 2020
	\$	\$
Loss after income tax benefit for the period	(8,255,114)	(1,388,198)
Adjustments for:		
Depreciation and amortisation	1,244,792	386,283
Share-based payments	2,072,156	-
Foreign exchange differences	2,619	(31,270)
Accrued interest income	-	2,857
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	316,030	(520,856)
Decrease/(increase) in inventories	192,726	(269,043)
Increase in other assets	(867,623)	(895,094)
Decrease/(Increase) in contract assets	200,276	(437,759)
Increase in trade and other payables	935,864	1,108,204
Increase in contract liabilities	1,062,898	7,798
Increase/(decrease) in derivative liabilities	(80,512)	112,000
Increase/(decrease) in deferred tax liabilities	(346,066)	346,066
Increase in employee benefits	340,444	584,464
Increase/(decrease) in other provisions	(59,307)	87,847
Net cash used in operating activities	<u>(3,240,817)</u>	<u>(906,701)</u>

Note 35. Share-based payments

During the 2021 financial year, X2M issued the following fully paid ordinary shares to key management personnel and employees under the Company's Incentive Share Plan:

Grant date	Vesting date	No. of shares granted*	Fair value at grant date	Share based payment expense
12/02/2021	12/02/2021	259,200	\$0.278	72,000
24/03/2021	24/03/2021	2,332,628	\$0.125	291,578
25/03/2021	25/03/2021	4,104,000	\$0.125	513,000
30/06/2021	30/06/2021	4,345,176	\$0.125	543,147
30/06/2021	30/06/2021	<u>5,219,448**</u>	<u>\$0.125</u>	<u>652,431</u>
		<u>16,260,452</u>		<u>2,072,156</u>

* Number of shares disclosed on post consolidation basis.

** Shares were issued on 2 July 2021 and transferred from share based payments reserve to issued capital at that time.

Accounting policy for share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

X2M Connect Limited
Notes to the financial statements
30 June 2021

Note 35. Share-based payments (continued)

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Note 36. Earnings per share

	Consolidated	
	9 December	
	2019 to 30	
	June 2020	
	2021	2020
	\$	\$
Loss after income tax attributable to the owners of X2M Connect Limited	<u>(8,255,114)</u>	<u>(1,388,198)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>67,619,064</u>	<u>42,751,801</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>67,619,064</u>	<u>42,751,801</u>
	Cents	Cents
Basic earnings per share	(12.21)	(3.25)
Diluted earnings per share	(12.21)	(3.25)

The weighted average number of ordinary shares for 2020 has been restated for the effect of the share split on 4 February 2021, in accordance with AASB 133 *Earnings per share*.

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of X2M Connect Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

DIRECTORS DECLARATION

X2M Limited
Directors' declaration
30 June 2021

In the Directors' opinion:

- The attached financial statements and notes comply with the Accounting Standards as described in note 2 to the financial statements;
- The attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial period ended on that date; and
- There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

On behalf of the Directors



Hon. Alan Stockdale AO
Non-Executive Chairman

30th September 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 X2M Connect Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the period ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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.

Emphasis of matter – Realisation basis of accounting

The Group recorded a loss after tax for the year ended 30 June 2021 of \$8,255,114 (2020 part comparative period: \$1,388,198) and cash outflows from operating activities of \$3,240,817 (2020 part comparative period: \$906,701) and as at 30 June 2021 the Group had a working capital deficiency, being current assets less current liabilities, of \$2,409,535 (2020: \$3,960,093). As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition of contracts which contain multiple element arrangements – Notes 6 and 18</p>	
<p>There is judgement relating to revenue recognition for contracts that contain hardware, licence and services charges. Revenue recognition for multiple-element arrangements can be complex and involve management judgement. These judgements include:</p> <ul style="list-style-type: none"> • identification of each performance obligation in the arrangements; • determination of the appropriate allocation of the amount of revenue to each element in particular as many of the Group's arrangements involve the delivery of hardware, licences and other services; and • determining when the performance obligation of each element is satisfied, and the associated revenue can be recognised. 	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • considering the appropriateness of management's assessment of revenue streams in accordance with accounting standard AASB 15 <i>Revenue from Contracts with Customers</i>; • documenting our understanding of the various arrangements used by the Group and evaluating management's revenue recognition of the elements they contained to assess compliance with AASB 15; • sample testing revenue recorded to contracts with customers to assess whether revenue is being recognised in accordance with the Group's revenue recognition policies; • assessing the sales selected in our sample above, where applicable, for the accuracy of revenue to be deferred at year-end; • analytically reviewing deferred revenue balances at reporting period end for exceptions and anomalies against expectations; • substantiating sales transactions around reporting date and agreeing transactions to supporting documents to assess whether revenue is recognised in the correct periods; and • assessing the adequacy of disclosures for compliance with the revenue recognition requirements of Australian Accounting Standards (AASBs).
<p>This area is a key audit matter due to the complexity surrounding the long-term contract revenue recognition.</p>	

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the period ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the 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 the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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: https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report in the Directors' report for the period ended 30 June 2021.

In our opinion, the Remuneration Report of X2M Connect Limited, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 30 September 2021

CORPORATE GOVERNANCE STATEMENT

AS AT 19TH SEPTEMBER 2021

X2M (the Company) is committed to achieving and demonstrating the highest standards of corporate governance to protect and enhance shareholder interests.

This Corporate Governance Statement reports against the ASX Corporate Governance Principles and Recommendations (4th Edition) (ASX Principles). The practices detailed in the Corporate Governance Plan are current as of the 19th of September 2021 and have been approved by the Board. A full copy of the Corporate Governance Plan can be found on the company website at www.x2mconnect.com. Key details of the plan are detailed below.

Principle 1: The Board Lays Solid Foundations for Management Oversight

Board Responsibilities and Delegations

The Company's Board Charter was adopted by the Board in February 2021. The Board Charter is located on the Company website at www.x2mconnect.com.

The Board Charter provides a framework for the effective operation of the Board, setting out:

- a) the Board's role and responsibilities and size and composition.
- b) the establishment of the Audit and Risk Committee (as described below) and the Board's ability to delegate any of its powers to a Board Committee, a Director or other person from time to time, subject to ultimate responsibility residing with the Directors;
- c) the responsibilities delegated by the Board to the Chief Executive Officer

(CEO) and members of the Executive Team; and

- d) the role of the Board Chair and the Company Secretary.

The Board Charter provides that the Board's role is to, amongst other things:

- a) set X2M's values and standards of conduct and ensure that they are adhered to.
- b) provide and demonstrate leadership.
- c) define and set X2M's strategic direction.
- d) monitor the operational and financial position and performance of the Company and monitor that the Company is properly managed to protect and enhance shareholder interests and
- e) adopt internal controls, a risk management framework, as well as corporate governance policies and practices that promote the responsible management and conduct of X2M.

The Board's responsibilities include:

- a) the appointment of a Chair.
- b) the appointment and removal of the CEO.
- c) approval of X2M's Group's statement of values and Code of Conduct; and
- d) approval of major capital expenditure, acquisitions, and divestitures in excess of authority levels delegated to management.

The Board Charter provides that the Company Secretary is accountable to the Board through the Chair on all matters to do with the proper functioning of the Board. This includes advising the Board and its Committees on governance matters and

monitoring that Board and Committee policies and procedures are followed.

The Board Charter delegates responsibility for day-to-day management and administration of X2M to the CEO and members of the Executive Team. The CEO is responsible for providing effective leadership, direction and supervision of the Executive Team to achieve the strategies, business plans and budgets adopted by the Board and in accordance with the values and culture set by the Board. The Board has procedures in place to regularly assess the performance of the CEO and members of the Executive Team.

Board Committees

The Board has established an Audit and Risk Committee to assist it in discharging its function. All other responsibilities are managed by the full Board.

Board Meetings

The Board meets as often as necessary to fulfil its role. Directors are required to allocate sufficient time to X2M to perform their responsibilities effectively, including adequate time to prepare for Board meetings. From the 8th of February 2021 when the Independent Board was established, the Board met 12 times.

For full details of Directors' attendance at Board and Committee Meetings for 2021, refer to "Board and Committee Meeting Attendance" on page 14.

Access to Information and Independent Professional Advice.

Directors have access to Management to seek explanations and information, as well as to the Auditors to seek explanations and information without Management present, at any time they consider it appropriate. The Board collectively, and each Director

individually, has the right to seek, at the expense of the Company, any independent professional advice that they consider necessary to fulfil their responsibilities subject to the approval of the Chair which cannot be unreasonably withheld or delayed.

The Company has appointed a Company Secretary who is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

Remuneration Committee

Due to the size of the Board, X2M does not have a separate Remuneration Committee. The roles and responsibilities of the Remuneration Committee are currently undertaken by the Board.

Background Checks Before Appointing Directors and Senior Executives

X2M formally undertakes background checks for Directors and senior executives and will require certain information to be provided to shareholders each time an existing Director stands for re-election. In addition, the Company will provide shareholders with any other material information relevant to a decision on whether to elect or re-elect a Director at a General Meeting.

Prior to the appointment of a new Director or senior executive (being a member of the Executive Team), the Board undertakes appropriate background checks as to the candidate's character, experience and education and confirms that the candidate does not have a criminal record. For Directors only, confirmation is also obtained that the Director is not an undischarged bankrupt. Having satisfied the background checks, the candidate for a Director is required to provide the Chair with the commitment that they will have adequate time to fulfil their

responsibilities as a Non-Executive Director of X2M. The Chair must be satisfied that the candidate for Director can materially contribute to the overall skills and experience of the Board with reference to the X2M Director Skills Matrix.

X2M has entered into written agreements with each Director setting out the terms, conditions and responsibilities of their appointment, as well as the key terms of all employment, service or consultancy agreements with the CEO, the Directors and any other related parties to the CEO and the Directors.

Diversity

Consistent with X2M's values, the Company is committed to providing an inclusive, equitable and fair workplace where everyone is treated with respect and dignity regardless of gender, marital or family status, sexual orientation, gender identity, age, ability, ethnicity, religious beliefs, cultural background, socio-economic background, perspective, and experience.

X2M's Diversity Policy includes requirements to ensure that employment related decisions are transparent, equitable and fair; that a diverse range of candidates are considered for positions; to guard against any conscious or unconscious biases that might discriminate against certain candidates; to ensure that staff have access to development and career opportunities based on merit; and to ensure a workplace which is free from discrimination, harassment, bullying, victimisation and vilification.

The Board is responsible for reviewing the Company's Diversity Policy periodically to check that it is operating effectively. The Diversity Policy was approved by the Board in February 2021 and a copy is available on the X2M website at www.x2mconnect.com.

Diversity Status

The Board plays a specific role in driving diversity, particularly gender diversity across the business by reviewing and approving annual diversity objectives and progress towards these objectives.

X2M has a diverse workforce and is represented by a broad range of ages and nationalities. Gender diversity remains a challenge across the technology industry and is represented in the table below. However, X2M is an equal opportunity employer and is committed to improving diversity as the business scales. The workforce diversity as at the 30th of June 2021 follows:

	FEMALE		MALE	
	NUMBER	%	NUMBER	%
Board*	1	25%	3	75%
Senior Management**	2	10%	10	83%
Total Employees	7	16%	38	84%

Table 19: Diversity status of the 30th of June 2021.

(*The Board target is below the market expectation of $\geq 30\%$ as the Board only consists of 4 Directors. **Senior Management includes the CEO and the Executive Team who report to the CEO.)

The Board is responsible for assessing whether there is any gender or other inappropriate bias with respect to the remuneration of Directors, the Executive Team or other employees. The Board also sets and reviews the diversity targets annually.

Diversity Targets

X2M set gender diversity targets annually. Given the current size of the team and the limited opportunity for change, X2M will only be able to address gender diversity as it adds to or replaces team members. However, the Company is an equal

opportunity employer and will seek to improve gender diversity as the business grows.

The midterm gender diversity targets are:

	TARGET
Board*	≥25%
Senior Management**	≥25%
Total Employees	≥25%

Table 20: Midterm Diversity Targets

Performance Review of the Board

The X2M's Board Charter requires an annual Board assessment and review of its performance, its committees, and Directors annually. Given the timing of the Boards appointment in 2021, a review was not undertaken but will occur next year.

Performance Review of the CEO and Executive Team

X2M's Board Charter provides that the Board is responsible for monitoring the performance of the Executive Team. The performance of the CEO and Senior Executives is assessed annually with reference to agreed milestones. Performance reviews were undertaken during the reporting period. Details of the remuneration of the Executive Team considered by the Company to be Key Management Personnel is set out in the Remuneration Report.

The Board is responsible for agreeing the remuneration arrangements and terms of employment for the CEO and Executive Team. The Board is also responsible for:

- f) any equity-based remuneration plans for the Executive Team and other employees.
- g) reviewing and approving the design and total proposed payments from any Executive Team incentive plan; and
- h) the proposed award to each member of

the Executive Team under the rules of any Executive Team incentive plan.

Principle 2: The Board is Structured to be Effective and to Add Value

Nomination Committee

Due to the size of the Board, X2M does not have a separate Nomination Committee. The roles and responsibilities of the Nomination Committee are currently undertaken by the Board.

Composition of the Board and Details of Directors

X2M currently has four Directors, all of whom are Non-Executive Directors. The Board considers that the current size of the Board is appropriate to discharge its duties effectively.

The criteria by which the Board determines the independence of a Director are set out in the Board Charter. The Board has determined that all of the Non-Executive Directors are independent. There is a clear division of responsibility between the Chair, who is an Independent Non-Executive Chair, and the CEO.

Each Director must provide to the Board all information relevant to the assessment of his or her independence and where a Director's independent status changes, X2M will immediately disclose and explain this to the market.

DIRECTOR	STATUS	APPOINTMENT DATE
Alan Stockdale	Independent	8 February 2021
Jodie Leonard	Independent	8 February 2021
Damien Johnston	Independent	8 February 2021
John Stewart	Independent	8 February 2021

Table 21: Status of Director Independence

For details of the current Directors, their qualifications, skills, and experience refer to page 15-16 in Directors' Report.

Board Skills Matrix

Under the Company's Constitution, the Board must comprise at least three Directors and a maximum of twelve Directors. The Board regularly reviews the composition of the Board, considering the number and skill mix of the Directors.

The Board recognises the need to review and consider the composition of the Board to align it with ASX best practice and ensure that it comprises the necessary skills to establish and deliver upon the Company's strategic objectives. The Board considers, and, updates, the Board skills matrix at least annually to ensure that as X2M grows, the Board comprises the appropriate mix of skills, expertise, experience, and diversity. In 2021, the Board developed a Board skills matrix that included the following skills and experience:

Key Board Skills and Experience	Number
Asia Pacific Market Experience Experience working in/leading an organisation with global operations, or an understanding of different political, cultural, regulatory, and business environments	4
Strategy Experience defining strategic objectives, assessing business plans and driving execution.	4
Digital, Data and Technology Expertise in adopting new digital technologies or implementing technology projects, and experience with managing digital disruption, leveraging digital technologies or understanding the use of data and data analytics.	4
Governance and Compliance Experience in the design and application of corporate governance and compliance programs with a commitment to high standards of governance.	4

Financial and Risk Management Understand financial drivers of the business and experience implementing or overseeing financial accounting, reporting, internal controls, and risk management frameworks.	4
Merger and Acquisitions Experience in undertaking or overseeing corporate mergers and acquisitions with ability to evaluate transactions and govern the transition phase.	4
Capital Management Experience in capital management strategies including debt financing and capital raisings.	4
People and Culture Experience monitoring a company's culture, OHS program, people management, succession planning, and remuneration frameworks.	4
Legal and Regulatory Experience in a capacity requiring skills and knowledge in relation to the law, especially with reference to company law and other relevant legal disciplines.	4
Government, Regulatory Agencies and Politics Experience in dealing with Governments and Government agencies and a broad knowledge of the workings of governments and politics.	4
Experience with Infrastructure Industries Experience in dealing with and/or marketing and selling to infrastructure industries, especially electricity, gas water and other utilities.	1

Table 22: Board Skills Assessment

Director Selection, Appointment and Induction

From time to time, the Board reviews the size, structure and composition of the Board, taking into consideration the balance of skills, experience and knowledge of Board members.

A formal Non-Executive Director Induction and Professional Development Policy will be developed in 2022. The Company Secretary is responsible for arranging for new Directors to undertake an induction

program to enable them to gain an understanding of:

- a) the Company's operations.
- b) the industry,
- c) the culture and values of the Company
- d) the Company's financial, strategic, operational and risk management position and
- e) the rights, duties, and responsibilities of the new Director.

The policy will also consider annual requirements for the Directors to undergo regular professional development.

Principle 3: The Board instils a culture of acting lawfully, ethically, and responsibly

Code of Conduct

The Board recognises the need to observe a high standard of corporate practice and business conduct. Accordingly, the Board adopted the Code of Conduct, which outlines how X2M expects everyone to behave and conduct business, consistent with the Company values.

All Directors, Officers, senior executives, employees, contractors, and consultants must comply with the Code of Conduct. The Code details the core values that are expected to drive Director and employee behaviour and aspirations. As set out in the Code of Conduct, the Company expects all parties to comply with the letter and spirit of the law, rule or regulation and not knowingly participate in any illegal or unethical activity. In addition, X2M expects that all parties carry out the Company's operations with high standards of honesty, integrity, and ethical, responsible and law-abiding behaviour.

The Code of Conduct was approved by the Board in February 2020 and a copy can be found on the Company's website at

www.x2mconnect.com.

Trading Policy

The X2M Trading Policy governs the sale and purchase of Company securities by Directors and Employees (Relevant Persons). Relevant Persons must not trade, arrange for someone else to trade, pass on information to someone they know, who may use the information to trade (or procure another person to trade) X2M shares when they are in possession of price sensitive information which is not generally available to the market. The policy also prohibits Relevant Persons from undertaking any financial arrangements to hedge the economic risk of X2M securities or to enter margin lending arrangements over securities.

Relevant Persons are prohibited from dealing in X2M securities (subject to exceptional circumstances) other than during the following mandated Open Periods:

- a) the period six weeks from commencement of the release Company's Annual Results.
- b) the period six weeks from commencement of the release Company's half year results; and
- c) any other period designated by the Board from time to time.

Provided a that relevant person may not deal in X2M securities at any time at which they are in possession of price sensitive information

If a Director, the CEO or the Executive Team wish to trade in X2M shares during an Open Period, the Trading Policy provides for:

- a) prior written approval by the Chair to be given to Directors (the Chair himself must seek prior written approval from

- the Chair of the Audit and Risk Committee); and
- b) prior written approval from the CEO or Chair to be given to the members of the Executive Team.

For all Relevant Persons, notification to the Company Secretary prior to, and after, trading is also required under the policy.

The current Trading Policy was adopted by the Board in February 2021. The Policy is located on the X2M website at www.x2mconnect.com.

Whistleblower Policy and Anti-Bribery and Corruption Policy

X2M recognises the important role whistleblowing can play in the early detection of misconduct and has adopted a Whistleblower Policy. The purpose of this policy is to establish a reporting system which secures protections for individuals who disclose misconduct and encourages employees and X2M's partners to report known or suspected misconduct. The Whistleblower Policy is located on the X2M Company website at www.x2mconnect.com.

The Company also recognises the importance of protecting the assets and reputation of the Company and has adopted an Anti-Bribery and Corruption Policy. The purpose of the Anti-Bribery and Corruption Policy is to reinforce the commitment and responsibility of X2M in identifying fraudulent and corrupt activities and to establishing policies, controls and procedures for prevention and detection of these activities. In addition, the Policy reinforces the requirement that all employees must refrain from and report any corrupt and fraudulent conduct. The Anti-Bribery and Corruption Policy is located on the X2M website at www.x2mconnect.com.

Principle 4: The Board Safeguards the Integrity of Corporate Reports

Audit and Risk Committee (ARC)

The ARC has three members, Damien Johnston (Chair), Jodie Leonard and John Stewart.

The ASX Principles recommend that an audit committee have at least three members, all of whom are non-executive Directors and a majority of whom are independent and that the chair of the audit committee be an independent Director who is not the chair of the board. The ARC met these requirements in 2021.

For full details of Committee members attendance at Committee Meetings for 2021, refer to "Board and Committee Meeting attendance" which is contained in the Directors' Report on page 14.

The ARC Charter requires that all members of the ARC can read and understand financial statements and that at least one member is a qualified accountant or other financial professional with appropriate experience of financial and accounting matters. The ARC met these requirements in 2021. For details of the qualifications, skills and experience of the ARC, refer to page 15 -16 for further details.

The ARC Charter sets out the role and responsibilities of the ARC and the Charter is located on the X2M website at www.x2mconnect.com. The ARC reviews its Charter annually or as required.

The objectives of the ARC are to:

- a) assist the Board to achieve its objectives in relation to corporate and financial reporting, the application of accounting policies, business policies and practices, legal and regulatory

- compliance and internal control and the risk management framework.
- b) maintain and improve the quality, credibility, and objectivity of the financial accountability process; and
 - c) promote a culture of compliance across X2M.
 - d) provide a forum for communication between the Board and the Company's management in relation to audit and compliance matters affecting X2M.
 - e) oversee the internal audit (if any) and external audit functions and communication between the Board and the internal auditor (if any) and the external auditor; and
 - f) review and comment on Management's plans for managing the material financial, non-financial and reporting risks faced by the Company.

Independent Audit

The responsibilities of the ARC in relation to external audit include:

- a) approving the terms of engagement with the external auditor at the beginning of each financial year.
- b) reviewing the external auditor's proposed audit scope and approach.
- c) recommending to the Board for approval, the appointment or removal of the external auditor.
- d) reviewing the performance of the external auditor and approving the fees payable to the external auditor.
- e) developing and overseeing the implementation of the Company's policy on the engagement of the external auditor to supply non-audit services and monitoring compliance with that policy.
- f) providing advice to the Board in relation to whether the ARC is satisfied that the provision of non-audit services is compatible with the general standard of independence and an explanation of why those non-audit services do not compromise audit independence; and

- g) meeting with the external auditor to review audit reports.

The external auditor must be independent of X2M. The ARC regularly reviews and assesses the independence of the external auditor and makes recommendations to the Board.

The ARC may obtain information from, and consult with, management, the external Auditor and external advisers, as it considers appropriate. The ARC also has access to the external auditor to discuss matters without management being present.

The ARC is responsible for engaging in the proactive oversight of, and adequacy of, the Company's financial reporting and disclosure processes. The ARC reviews all periodic financial reports with management, advisers and the external auditor (as appropriate) and recommends to the Board, adoption of applicable financial reports if the reports reflect the understanding of the ARC Committee and provide a true and fair view of the financial position and performance of the Company.

CEO and CFO Declaration

Prior to Board approval of X2M's annual financial reports, the CEO and CFO must provide the Board with the declarations required under section 295A of the Corporations Act and Recommendation 4.2 of the ASX Principles. This declaration is also provided prior to Board approval of the Company's half-year financial reports.

For the half-financial year ended 31 December 2020 and for the financial year ended 30 June 2021, the CEO and CFO made a declaration in accordance with section 295A of the Corporations Act and Recommendation 4.2 of the ASX Principles.

Auditor at the AGM

At X2M's 2021 AGM, Grant Thornton, as the independent external auditor, will be present and available to answer shareholder questions on the:

- a) conduct of the independent external audit.
- b) preparation and content of the independent external auditor's report.
- c) accounting policies adopted by X2M in relation to the preparation of the financial statements; and
- d) independence of Grant Thornton in relation to the conduct of the audit.

Principle 5: The Board Makes Timely and Balanced Disclosure

It is the intention of the Board to ensure that shareholders are kept informed of all major developments affecting the state of affairs of X2M.

The Company's Continuous Disclosure Policy sets out the disclosure obligations under the Corporations Act and ASX Listing Rules and is located on the X2M website at www.x2mconnect.com.

Under the Continuous Disclosure Policy, the Board bears the primary responsibility for X2M's compliance with its continuous disclosure obligations and is responsible for overseeing and implementing this policy. The Board makes the ultimate decision on whether there is any materially price sensitive information that needs to be disclosed to the ASX, and Board approval is required for any release which relates to any matter which is both material and strategically important for the Company. In addition, at each Board meeting, consideration is given to any information that must be disclosed to the ASX in accordance with X2M continuous disclosure

obligations.

The Company Secretary has primary responsibility for all communication with the ASX in relation to ASX Listing Rule matters. The Company Secretary is also responsible for ensuring that the Directors receive copies of all material market announcements promptly after they have been made.

The Board is responsible for regularly reviewing the Continuous Disclosure Policy to ensure that it remains effective and consistent with all relevant legal pronouncements and the ASX Principles.

Principle 6: The Board Respects the Rights of Security Holders

X2M respects the rights of its shareholders and promotes effective two-way communication with shareholders and other stakeholders. The Company will ensure shareholders are fully informed of X2M's business, governance, and financial performance, and they understand how to assess relevant information about the Company's activities.

The Company Website

X2M's website is located at www.x2mconnect.com. The site is kept current to maintain effective communication with shareholders and stakeholders. Information available on the website includes information about the Company's operations and its brands; the Board of Directors; copies of all key governance documentation; announcements; archived investor presentations; current share price information; and company events.

All ASX announcements made by the Company can also be accessed via the

‘Announcements’ section of the ASX website www.asx.com.au/asx/statistics/announcements.do, using the X2M ticker code X2M.

Investor Relations

Relationships with investors are very important to X2M. Following the release of its half-year and annual financial statements, the Company will conduct investor briefings and investor roadshows with institutional groups and analysts. X2M will send details of its half-year and full-year investor call to the ASX to ensure that a wide set of stakeholders are able to attend. The X2M AGM will be held in November and the Chair, Directors and Key Management Personnel will engage with Shareholders in advance of the AGM, as appropriate.

Shareholder Communications

Shareholders may elect to receive all communications from X2M’s share registry electronically. Electronic communications are timelier, cost effective, and are encouraged by the Company. Shareholders should contact the share registry if they wish to elect to receive electronic communications by emailing hello@automic.com.au.

The Company’s’ share registry is managed by Automic Group Pty Ltd. Their website address is www.automicgroup.com.au.

Shareholder Engagement and Participation

To encourage shareholder engagement and participation at the AGM, when possible, shareholders have the opportunity to attend the AGM, ask questions from the floor, participate in voting and meet the Board and the Executive Team in person. In the event the AGM is held electronically, the Company will ensure that appropriate technology is used to facilitate the participation of shareholders at such meetings. Shareholders who are unable to

attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form that accompanies the notice of meeting, or online through the share registry’s website. For the 2021 AGM and onwards, all questions will be decided by a poll rather than a show of hands.

Shareholders have the opportunity to submit written questions and comments to X2M and its external auditor.

Presentations and speeches made by the Chair and CEO at the AGM are made available on the ASX announcements platform and X2M website before the commencement of the meeting. X2M will advise the results of the AGM to the ASX and on its website promptly following the conclusion of the AGM.

Principle 7: The Board Recognises and Manages Risk

Risk Committee

The ARC is charged with the responsibility to assist the Board in the oversight of risk. Please refer to page 15-16 for details of the members of the Committee, qualifications and experience of members and individual attendances at Committee meetings.

The sections of the ARC Charter with respect to risk management includes the following:

- a) oversee the establishment and implementation of the risk management framework and internal compliance and control systems.
- b) monitoring the mechanism for assessing the ongoing efficiency and effectiveness of the risk management framework and internal compliance and control systems.
- c) monitoring whether X2M is operating within the risk appetite set by the

Board and make recommendations on any necessary changes that should be made to the risk appetite.

- d) review risk management policies and procedures at least annually to ensure that the risk systems and processes in place are operating effectively and efficiently, in regard to identifying, assessing, monitoring and managing risk; and
- e) review X2M's risk management framework at least annually to evaluate compliance and internal control processes and making recommendations to the Board.

The Audit and Risk Committee Charter is available on the X2M website at www.x2mconnect.com.

Review of Risk Management Framework

The Board has overall responsibility for the Group's risk management and internal controls. The Board has delegated detailed review of these matters to the ARC which reports material issues to the Board.

The Company has adopted a Risk Management Policy which is available on the Company website at www.x2mconnect.com. This policy highlights the risks relevant to the Group's operations and the policies the Group has enacted for the supervision and management of material business risks.

The ARC oversees the establishment and implementation of, the Group's Risk Management Framework and makes recommendations to the Board on the soundness of risk management across X2M. In 2021, management identified the material business risks of X2M. In 2022, the risk management processes of the Company will develop further as the Company matures.

X2M's internal compliance and control systems are designed to ensure effective

and efficient operations, including financial reporting and compliance with laws and regulations, and managing risk across the Group's business activities. The internal control systems which have been adopted by the Company aim to develop a culture which is able to identify, communicate and manage material risk.

Internal Audit Function

Prior to listing on the ASX, X2M did not appoint an Internal Auditor as the size and scale of the operations did not warrant the function.

Moving forward, the Management team in consultation with the ARC, will review the need for an Internal Auditor who will assist with the oversight and validation of key elements of the Company's internal governance.

Material Exposure to Environmental or Social Risks

The Audit and Risk Committee Charter requires the Audit and Risk Committee (or, in its absence, the Board) to assist management to determine whether the Company has any potential or apparent exposure to environmental or social risks and, if it does, put in place management systems, practices and procedures to manage those risks.

The Company's Corporate Governance Plan requires the Company to disclose whether it has any potential or apparent exposure to environmental or social risks and, if it does, put in place management systems, practices and procedures to manage those risk.

Where the Company does not have material exposure to environmental or social risks, report the basis for that determination to the Board, and where appropriate benchmark the Company's environmental or social risk profile against

its peers.

The Company considers that it does not have material exposure to environmental or social risks given the nature of its business and operations.

Principle 8: The Board Remunerates Fairly and Responsibly

X2M's approach to remuneration is framed by the strategic direction and operational demands of the business, as well as the international context in which the business operates, sustainable shareholder returns, and the Company's governance standard.

Remuneration Committee

The responsibilities of the Remuneration Committee are discharged by the full Board.

The Board is responsible for

- a) adopting appropriate remuneration policies and practices to attract and retain high quality Directors and to attract, retain and motivate senior executives who will create value for shareholders.
- b) monitoring compliance with the Board approved remuneration policies, incentives and behaviours arising from the remuneration structure; and
- c) Ensure the Executive Team are fairly and responsibly rewarded having regard to the performance of the Company, the performance of the Executive Team and the general external remuneration environment.

The Remuneration Committee Charter sets out the role and responsibilities of the

Board. A copy of the Charter is located on the X2M website at www.x2mconnect.com. The Charter was approved in February 2021 and is reviewed annually or as required.

Remuneration Policies and Practices

In 2021 an Employee Share Scheme was implemented prelisting aimed at aligning key personnel with the goals and objectives of the company, as well as the goals and objectives of shareholders. Further work will be undertaken in 2022 to streamline both long- and short-term incentives to ensure they apply consistently across the group.

Details about X2M's remuneration strategy, framework, policies, and practices are set out in the Company's Remuneration Report on page 24.

The Company's Remuneration Policy is located on the X2M website at www.x2mconnect.com.

Policy on Hedging Equity-based Incentive Schemes

X2M offers an equity-based remuneration scheme through its STI and LTI plans. The STI Plan Rules, LTI Plan Rules and the X2M Trading Policy prohibits employees from hedging the value of restricted shares and unvested securities.

Breaches of this prohibition will result in awards being forfeited by the relevant employee.

The Company's Trading Policy is located on the X2M website at www.x2mconnect.com.

ADDITIONAL INFORMATION

Additional Information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows: The information is current at 29th of September 2021.

Twenty Largest Shareholders

The name of the twenty largest holders of quoted Ordinary shares is:

RANK	NAME OF HOLDER	LISTED ORDINARY SHARES	
		NUMBER OF SHARES	% OF SHARES
1	Super Properties Pty Ltd <Shayne Smyth A/C>	19,923,329	14.22%
2	Mazzara Succession Pty Ltd <Mazzara A/C>	17,260,015	12.32%
3	Andrew C Greig	11,689,623	8.34%
4	M & M Jesudason Co Pty Ltd <Jesudason Family A/C>	10,810,152	7.72%
5	Perle Ventures Pty Ltd <877 Capital Investments2 A/C>	5,563,775	3.97%
6	Vanew Pty Ltd <G M Tauber Family A/C>	4,801,165	3.43%
7	Allegro Capital Nominees Pty Ltd <Allegro Capital A/C>	4,800,000	3.43%
8	Azimbo Investments Pty Ltd <Azimbo Family A/C>	3,603,384	2.57%
9	Perle Ventures Pty Ltd <Pv Investments 3 A/C>	3,569,517	2.55%
10	Miller Family Enterprises Pty Ltd <Hylton Dommy A/C>	3,000,001	2.14%
11	KMR Shares Pty Ltd <The KMR Investment Unit A/C>	3,000,001	2.14%
12	Hailan Shi	3,000,000	2.14%
13	Junfei Zhao	2,666,667	1.90%
14	Fengmei Shang	2,666,667	1.90%
15	Intercontinental Pty Limited	2,415,996	1.72%
16	Chengyu Fang	2,250,000	1.61%
17	JD Investments Holding Pty Ltd <JD Investment T A/C>	2,000,000	1.43%
18	Qiang Fei	2,000,000	1.43%
19	JML Capital Limited	1,600,000	1.14%
20	HSBC Custody Nominees (Australia) Limited	1,551,227	1.11%
	TOTAL	108,171,519	77.21%

Table 23: Distribution of Shareholdings by Size as at 29th of September 2021.

Substantial Shareholders

The names of the substantial shareholders (>5%) and their associates are set out below:

	NAME OF HOLDER	LISTED ORDINARY SHARES	
		NUMBER OF SHARES	% OF SHARES
1	Super Properties Pty Ltd <Shayne Smyth A/C>	29,056,621	20.7%
2	Mazzara Succession Pty Ltd <Mazzara A/C>	17,260,015	12.32%
3	Andrew C Greig	11,689,623	8.34%
4	M & M Jesudason Co Pty Ltd <Jesudason Family A/C>	10,810,152	7.72%
5	Allegro Capital Nominees Pty Ltd <Allegro Capital A/C>	7,215,996	5.15%

Table 24: Substantial Shareholders (>5%) as at 29th of September 2021.

Distribution of Securities

Distribution of Ordinary Shareholdings by Size of holdings:

DISTRIBUTION OF SHAREHOLDINGS	ORDINARY FULLY PAID SHARES		
	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	2	322	0.00%
1,001 - 5,000	110	293,027	0.21%
5,001 - 10,000	155	1,283,575	0.92%
10,001 - 100,000	165	5,558,532	3.97%
100,001 - 9,999,999,999	81	132,966,080	94.91%
TOTAL	513	140,101,536	100.00%
Shareholders holding less than a marketable parcel of shares	52	93,219	0.07%

Table 25: Distribution of Shareholdings by Size of Holding as at 29th of September 2021.

Distribution of Options

Distribution of Options by Size of holdings:

DISTRIBUTION OF HOLDINGS	OPTIONS		
	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	13	748,894	2.71%
100,001 - 9,999,999,999	21	26,922,314	97.29%
TOTAL	34	27,671,208	100.00%

Table 26: Distribution of Options by Size of Holding as at 29th of September 2021.

Issued Options

Distribution of options issued along with escrow period.

DISTRIBUTION OF HOLDINGS	OPTIONS			
	ESCROW PERIOD	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
Employee Options @ \$0.3575 Expire 13/9/25	12 months	27	5,047,690	100.00%
Employee Options @ \$0.3575 Expire 13/9/25	24 months	4	360,339	100.00%
Executive Options @ \$0.3575 Expire 13/9/25	12 months	1	2,389,897	100.00%
Executive Options @ \$0.3575 Expire 13/9/25	24 months	1	7,169,691	100.00%
Executive Options @ \$0.25 Expire 15/7/25	24 months	1	7,058,462	100.00%
Executive Options @ \$0.25 Expire 15/7/25	-	1	2,352,821	100.00%
TOTAL		35	24,378,900	

Table 27: Distribution of options issued and escrow period as at 29th of September 2021.

Shares under Escrow

ESCROW ARRANGEMENTS	ORDINARY FULLY PAID SHARES		
	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL ¹⁸
Escrowed Shares 12 Months From 04/06/21	8	4,180,000	100.00%
Escrowed Shares 12 Months From 09/06/21	5	9,745,844	100.00%
Escrowed Shares 12 Months From 23/06/21	7	3,800,000	100.00%
Escrowed Shares 12 Months From 14/07/21	6	5,333,332	100.00%
Escrowed Shares 12 Months From 11/02/21	1	259,200	100.00%
Escrowed Shares 12 Months From 30/06/21	1	423,546	100.00%
Escrowed Shares 12 Months From Quotation	4	33,417,755	100.00%
Escrowed Shares 24 Months From Quotation	4	547,200	100.00%
Escrowed Shares 24 Months From Quotation	1	4,104,000	100.00%
Escrowed Shares 24 Months From Quotation	4	894,154	100.00%
Escrowed Shares 24 Months From Quotation	1	5,219,448	100.00%
Escrowed Shares 24 Months From Quotation	1	1,486,704	100.00%
Voluntary Escrow Shares Until 28/02/2022	6	17,033,441	100.00%
Voluntary Escrow Shares Until 24/03/2024	6	1,785,428	100.00%
Voluntary Escrow Shares Until 30/06/2024	6	3,027,476	100.00%
TOTAL	61	91,257,528	

Table 28: Details of escrow share arrangements as at 29th of September 2021.

Unmarketable Parcels

There were 52 holders of unmarketable parcels of shares as of the 29th of September 2021.

Voting Rights

The voting rights attached to each class of equity securities are set out below:

a) Ordinary shares

Holders of ordinary shares have the right to vote at every general meeting of the Company and at separate meetings of holders of Ordinary Shares. At a general or separate meeting, every holder of ordinary shares present in person or by proxy has on poll, one vote for each ordinary share held

b) Options

No options or performance rights have been issued as part of various performance plans in the 2021 financial year, as of the 30th of June 2020:

- Number of participants: 0 participants.
- Maximum number of ordinary shares which may be issued if the performance conditions are achieved: 0.
- Participants do not have voting rights.

Securities Purchased on Market

There were no securities purchased on market during the year ended June 30, 2021.

¹⁸ % Issued capital refers to the class of escrowed shares

Unquoted Equity Securities

a) Ordinary shares

X2M Limited has 82,062,050 unquoted equity securities on issue on the 30th of June 2021.

b) Options

X2M Limited has 0 unquoted options on issue as of the 30th of June 2021.

Stock Exchange Listing

X2M Limited ordinary shares listed on the Australian Securities Exchange (ASX) under code: X2M.

Share Buy Backs

The Company did not undertake a share buy back in 2021. Given the growth agenda planned, there are no plans to undertake a share buy back in 2022.

Dividends

The Company did not pay a dividend in 2021. Given the current growth strategy, there are no plans to pay a dividend in the foreseeable future.

Changes to Unaudited Preliminary Financial Report

On the 20th of September 2021, the Group released its unaudited preliminary financial report for the year ended 30th of June 2021. Upon finalising the audit, the following immaterial variances were noted in the statement of profit or loss and other comprehensive income:

- Net increase of \$45,833 in total expenses
- Increase of \$98,785 in income tax benefit
- As the result of the above, loss after income tax benefit improved to \$8,255,114, representing a positive net change of \$52,952.

The Group's net assets increased by \$629,380, from net liabilities of \$444,160 to net assets of \$185,220. This was mainly attributable to a reclassification from the employee benefits provision to the share-based payments reserve.

COMPANY DIRECTORY

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1 800 926 926 (1 800 X2M X2M)

Auditor

Grant Thornton
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Melbourne VIC 3008

Corporate Governance Statement

A copy of the Corporate Governance Statement can be found on the website. Visit www.x2mconnect.com.

Shareholder Enquiries

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Company Secretary

Brett Tucker (resigned 30th September 2021)
Keith Jelley (resigned effective 8th October 2021)

Oliver Carton
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