

X2M Connect Limited

ACN 637 951 154

Half Year Financial Report - 31 December 2020

X2M Connect Limited

Contents

31 December 2020

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General information

The financial statements cover X2M Connect Limited (formerly X2M Connect Pty Ltd as at 30 June 2020 and incorporated as FS IOT Holdings Pty Ltd from 9 December 2019) as a group consisting of X2M Connect Limited (the 'Company' or the 'Parent') and the entities it controlled at the end of, or during, the period (collectively the 'Group'). The financial statements are presented in Australian dollars, which is X2M Connect Limited's functional and presentation currency.

X2M Connect Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia.

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 - incorporated on 29 April 2020 (non-trading at 30 June 2020)

*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.

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

X2M Connect Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2020

		Consolidated	
		1 July 2020	9 December
		to 31	2019 to 31
	Note	December	December
		2020	2019
		\$	\$
Revenue	4	3,192,231	-
Other income	5	413,067	-
Interest revenue		116	-
Total revenue and other income		<u>3,605,414</u>	<u>-</u>
Expenses			
Cost of sales		(2,184,025)	-
Employee benefits expense		(2,217,355)	-
Depreciation and amortisation expense		(615,663)	-
Finance costs	6	(34,972)	-
Telephone expenses		(99,480)	-
Short-term lease expenses		(41,354)	-
Other expenses		(148,542)	-
Professional fees		(519,105)	-
Total expenses		<u>(5,860,496)</u>	<u>-</u>
Loss before income tax expense		(2,255,082)	-
Income tax expense	21	<u>(71,429)</u>	<u>-</u>
Loss after income tax expense for the period attributable to the owners of X2M Connect Limited		(2,326,511)	-
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(37,136)</u>	<u>-</u>
Other comprehensive income for the period, net of tax		<u>(37,136)</u>	<u>-</u>
Total comprehensive income for the period attributable to the owners of X2M Connect Limited		<u><u>(2,363,647)</u></u>	<u><u>-</u></u>

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

X2M Connect Limited
Statement of financial position
As at 31 December 2020

		Consolidated	
		31 December	30 June 2020
	Note	2020	2020
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	7	486,840	302,092
Trade and other receivables	8	692,658	520,856
Contract assets	9	899,956	437,759
Inventories	10	757,259	269,043
Other assets	11	700,742	638,976
Total current assets		<u>3,537,455</u>	<u>2,168,726</u>
Non-current assets			
Property, plant and equipment and right-of-use assets	12	1,082,598	1,306,672
Intangible assets	13	2,154,047	1,761,502
Other assets	11	104,442	256,118
Total non-current assets		<u>3,341,087</u>	<u>3,324,292</u>
Total assets		<u>6,878,542</u>	<u>5,493,018</u>
Liabilities			
Current liabilities			
Trade and other payables	14	2,744,152	1,108,204
Contract liabilities	15	55,160	7,798
Borrowings	16	6,285,640	4,483,548
Lease liabilities	20	142,121	62,943
Derivative financial instruments	17	142,667	112,000
Employee benefits	18	329,342	266,479
Provisions	19	57,979	87,847
Total current liabilities		<u>9,757,061</u>	<u>6,128,819</u>
Non-current liabilities			
Lease liabilities	20	164,091	64,273
Deferred tax	21	417,495	346,066
Employee benefits	18	267,667	317,985
Total non-current liabilities		<u>849,253</u>	<u>728,324</u>
Total liabilities		<u>10,606,314</u>	<u>6,857,143</u>
Net liabilities		<u>(3,727,772)</u>	<u>(1,364,125)</u>
Equity			
Issued capital	22	260	260
Foreign currency translation reserve		(13,323)	23,813
Accumulated losses		<u>(3,714,709)</u>	<u>(1,388,198)</u>
Total deficiency in equity		<u>(3,727,772)</u>	<u>(1,364,125)</u>

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

X2M Connect Limited
Statement of changes in equity
For the period ended 31 December 2020

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 9 December 2019	-	-	-	-
Profit after income tax expense for the period	-	-	-	-
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 22)	260	-	-	260
Balance at 31 December 2019	260	-	-	260

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2020	260	23,813	(1,388,198)	(1,364,125)
Loss after income tax expense for the period	-	-	(2,326,511)	(2,326,511)
Other comprehensive income for the period, net of tax	-	(37,136)	-	(37,136)
Total comprehensive income for the period	-	(37,136)	(2,326,511)	(2,363,647)
Balance at 31 December 2020	260	(13,323)	(3,714,709)	(3,727,772)

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

X2M Connect Limited
Statement of cash flows
For the period ended 31 December 2020

		Consolidated	
		1 July 2020	9 December
		to 31	2019 to 31
	Note	December	December
		2020	2019
		\$	\$
Cash flows from operating activities			
Receipts from customers and other sources		3,899,220	-
Payments to suppliers (inclusive of GST)		(4,881,791)	-
Net cash used in operating activities		(982,571)	-
Cash flows from investing activities			
Payments for intangibles		(535,566)	-
Net cash used in investing activities		(535,566)	-
Cash flows from financing activities			
Proceeds from issue of shares	22	-	260
Proceeds from convertible notes	16	1,150,000	-
Proceeds from borrowings		652,092	-
Repayment of lease liabilities (including interest)		(67,328)	-
Net cash from financing activities		1,734,764	260
Net increase in cash and cash equivalents		216,627	260
Cash and cash equivalents at the beginning of the financial period		302,092	-
Effects of exchange rate changes on cash and cash equivalents		(31,879)	-
Cash and cash equivalents at the end of the financial period	7	<u>486,840</u>	<u>260</u>

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

New or amended Accounting Standards and Interpretations adopted

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

All new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that were mandatory for the current reporting period have been adopted, the adoption of which had no impact on the performance, cash flows and position of the Group presented in these financial statements.

Going concern

The 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.

For the half-year period ended 31 December 2020 the Group reported a loss after tax of \$2,326,511 and cash outflows from operating activities of \$982,571 and as at 31 December 2020 the Group had net liabilities of \$3,727,772 and had a working capital deficiency, being current assets less current liabilities, of \$6,219,606.

The Group had \$5,350,000 of convertible notes accounted for as current liabilities as at 31 December 2020. These notes converted to ordinary shares on 11 March 2021.

Subsequent to 31 December 2020 the Group issued additional convertible notes totalling \$3,150,000. Of these notes \$150,000 converted to ordinary shares on 11 March 2021. The remaining \$3,000,000 of notes were redeemed on 24 April 2021, with \$1,500,000 paid on 16 April 2020 and the remaining \$1,500,000 plus interest scheduled to be paid in June 2021.

In May 2021, the Company raised \$1,045,000 through the sale of ordinary shares to new investors.

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

In determining that the going concern assumption is appropriate, the Directors have prepared cash flow projections for the Group for the period until 30 June 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, control expenditures and successful completion of the IPO process in the second half of the 2021 calendar year.

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

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

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

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

Note 1. Significant accounting policies (continued)

Basis of preparation

The Half-Year Financial Report for the half-year ended 31 December 2020 has been prepared in accordance with AASB 134 *Interim Financial Reporting*. It does not include all the information and disclosures normally included in an annual financial report, and should be read in conjunction with the 9 December 2019 to 30 June 2020 Financial Report of the Group. The financial statements have been prepared in accordance with the recognition and measurement requirements specified by all Australian Accounting Standards Board Standards and Interpretations.

Reporting period

The financial statements cover the performance and cash flows of the Group for the period 1 July 2020 to 31 December 2020 and the position of the Group as at 31 December 2020. The comparative period is for the performance and cash flows of the Group from 9 December 2019, being the date of incorporation of X2M Connect Limited, to 31 December 2019 and the position of the Group as at 30 June 2020.

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 2.

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.

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.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of X2M Connect Limited ('Company' or 'parent entity') as at 31 December 2020 and the results of all subsidiaries for the period then ended. X2M Connect Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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.

Note 1. Significant accounting policies (continued)

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.

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.

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.

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.

Note 1. Significant accounting policies (continued)

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.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. There are no critical accounting judgements, estimates and assumptions that are likely to affect the current or future financial years.

Note 3. Business combinations

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 disclosed in the 9 December 2019 to 30 June 2020 Financial Report.

Note 4. Revenue

	Consolidated	
	1 July 2020	9 December
	to 31	2019 to 31
	December	December
	2020	2019
	\$	\$
Platform subscriptions revenue - over time	737,005	-
Hardware sales - point in time	2,357,666	-
Proof of concepts and development services revenue - over time	97,560	-
Revenue	<u>3,192,231</u>	<u>-</u>

Note 4. Revenue (continued)

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.

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

Interest

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

X2M Connect Limited
Notes to the financial statements
31 December 2020

Note 4. Revenue (continued)

Other revenue

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

Note 5. Other income

	Consolidated	
	1 July 2020	9 December
	to 31	2019 to 31
	December	December
	2020	2019
	\$	\$
Research and development tax credits	132,717	-
Government assistance	280,350	-
	<hr/>	<hr/>
Other income	413,067	-
	<hr/> <hr/>	<hr/> <hr/>

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 the government 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 under the JobKeeper Payment scheme and that the assistance will be received.

Note 6. Expenses

	Consolidated	
	1 July 2020	9 December
	to 31	2019 to 31
	December	December
	2020	2019
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest on lease liabilities	4,305	-
Interest on convertible notes	30,667	-
	<hr/>	<hr/>
Finance costs expensed	34,972	-
	<hr/>	<hr/>

X2M Connect Limited
Notes to the financial statements
31 December 2020

Note 7. Cash and cash equivalents

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current assets</i>		
Cash on hand	260	260
Cash at bank	486,580	301,832
	<u>486,840</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 8. Trade and other receivables

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current assets</i>		
Trade receivables	544,987	478,729
Related party receivables	100,000	-
Other receivables	47,671	42,127
	<u>692,658</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.

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 9. Contract assets

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current assets</i>		
Contract assets	899,956	437,759

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.

X2M Connect Limited
Notes to the financial statements
31 December 2020

Note 10. Inventories

Consolidated	
31 December	30 June 2020
2020	2020
\$	\$

Current assets

Finished goods - at cost

757,259	269,043
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Accounting policy for inventories

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

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

Note 11. Other assets

Consolidated	
31 December	30 June 2020
2020	2020
\$	\$

Current assets

Research and development tax credit receivables

394,057 244,514

Government assistance receivables

52,650 135,000

Prepayments

246,311 252,734

Other assets

7,724 6,728

700,742	638,976
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Non-current assets

Deposits

104,442 256,118

805,184	895,094
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Note 12. Property, plant and equipment and right-of-use assets

Consolidated	
31 December	30 June 2020
2020	2020
\$	\$

Non-current assets

Office equipment - at cost

13,153 18,698

Less: Accumulated depreciation

(2,335) (1,059)

10,818	17,639
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Deployed infrastructure - at cost

1,394,626 1,421,764

Less: Accumulated depreciation

(626,872) (258,503)

767,754	1,163,261
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Right-of-use assets (land & buildings) - at cost

387,869 145,103

Less: Accumulated depreciation

(83,843) (19,331)

304,026	125,772
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1,082,598	1,306,672
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Note 12. Property, plant and equipment and right-of-use assets (continued)

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.

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 period 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. 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 are expensed to profit or loss as incurred.

Note 13. Intangible assets

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Non-current assets</i>		
Intellectual property, patents and copyright - at cost	1,610,855	1,610,855
Less: Accumulated amortisation	(268,476)	(107,390)
	<u>1,342,379</u>	<u>1,503,465</u>
Intellectual property in progress - at cost	793,603	258,037
Licence fees - at cost	18,065	-
	<u>2,154,047</u>	<u>1,761,502</u>

Note 13. Intangible assets (continued)

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 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.

Note 14. Trade and other payables

	Consolidated	
	31 December	30 June 2020
	2020	
	\$	\$
<i>Current liabilities</i>		
Trade payables	1,485,824	562,809
Accrued expenses	1,258,328	545,395
	<u>2,744,152</u>	<u>1,108,204</u>

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 15. Contract liabilities

	Consolidated	
	31 December	30 June 2020
	2020	
	\$	\$
<i>Current liabilities</i>		
Contract liabilities	55,160	7,798

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 16. Borrowings

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current liabilities</i>		
Other borrowings	935,640	283,548
Convertible notes	5,350,000	4,200,000
	<u>6,285,640</u>	<u>4,483,548</u>

Accounting policy for borrowings

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 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.

Other borrowings include a loan of \$500,000 from two shareholders of the Company entered in to on 16 November 2020. On 19 January 2021, the Company extended the loan amount to \$1,000,000. On 9 February 2021, the Company amended the loan to repay an initial amount of \$500,000 (paid on 3 March 2021) and defer the repayment of the balance of the loan and interest until after subsequent capital raisings occur. On 30 April 2021 the Company made a drawdown of \$204,000 of the repaid funds and further amended the loan to convert 50% of the total outstanding amount to ordinary shares and to pay the remaining 50% into the broker account for the planned IPO.

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 1,150,000 convertible notes during the period that are able to be converted to ordinary shares in the event of an IPO or certain exit events occurring. The Group has the ability to redeem the notes at any time pending certain conditions being met. The notes converted to ordinary shares on 11 March 2021.

Derivatives on convertible notes are accounted for separately. Refer to note 17 for further details.

Note 17. Derivative financial instruments

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current liabilities</i>		
Derivative on convertible notes	<u>142,667</u>	<u>112,000</u>

Accounting policy for derivative financial instruments

The derivatives relate to the convertible notes issued as disclosed in note 16. 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.

Note 18. Employee benefits

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current liabilities</i>		
Employee benefits	329,342	266,479
<i>Non-current liabilities</i>		
Employee benefits	267,667	317,985
	<u>597,009</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 19. Provisions

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current liabilities</i>		
Onerous contract	57,979	87,847

Accounting policy for provisions

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

Note 19. Provisions (continued)

Onerous contracts

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

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

Note 20. Lease liabilities

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Current liabilities</i>		
Lease liability	142,121	62,943
<i>Non-current liabilities</i>		
Lease liability	164,091	64,273
	<u>306,212</u>	<u>127,216</u>

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
31 December 2020

Note 21. Deferred tax

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$	\$
<i>Non-current liabilities</i>		
Deferred tax liability comprises temporary differences attributable to:		
Intellectual property	535,606	443,597
Employee benefits	(95,425)	(75,178)
Other	(22,686)	(22,353)
Deferred tax liability	<u>417,495</u>	<u>346,066</u>
<i>Movements:</i>		
Opening balance	346,066	-
Charged/(credited) to profit or loss	71,429	(62,554)
Additions through business combinations (note 3)	-	408,620
Closing balance	<u>417,495</u>	<u>346,066</u>

Accounting policy for deferred tax balances

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Note 22. Issued capital

	Consolidated			
	31 December	30 June 2020	31 December	30 June 2020
	2020	2020	2020	2020
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>2,598</u>	<u>2,598</u>	<u>260</u>	<u>260</u>

X2M Connect Limited
Notes to the financial statements
31 December 2020

Note 22. Issued capital (continued)

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.

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 23. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2020.

Note 24. Commitments

The Group had no material commitments not accounted for in the statement of financial position as at 31 December 2020.

Note 25. 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 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2020 %	30 June 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 26. Events after the reporting period

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

On 13 January 2021, the Company received in principle advice from the ASX that it could proceed with the process to list on the ASX.

On 4 February 2021, the Company split its shares from 2,598 shares into 50,800,480 shares.

Note 26. Events after the reporting period (continued)

On or about 8 February 2021, the shareholders determined that, in preparation for the IPO, an experienced and independent Board should be put in place and should replace the existing Board. The existing Board nominated and appointed four new independent directors and then resigned their positions from the Board.

The Company had \$500,000 of borrowings from two shareholders of the Company. On 19 January 2021, the Company extended the loan amount to \$1,000,000. On 9 February 2021, the Company amended the loan to repay an initial amount of \$500,000 (paid on 3 March 2021) and defer the repayment of the balance of the loan and interest until after subsequent capital raisings occur. On 30 April 2021, the Company made a drawdown of \$204,000 of the repaid funds and further amended the loan to convert 50% of the total outstanding amount to ordinary shares and to pay the remaining 50% into the broker account for the planned IPO.

The Company had \$5,350,000 of convertible notes accounted for as current liabilities as at 31 December 2020. These notes converted to ordinary shares on 11 March 2021.

Subsequent to 31 December 2020 the Company issued additional convertible notes totalling \$3,150,000. Of these notes \$150,000 converted to ordinary shares on 11 March 2021. The remaining \$3,000,000 of notes were redeemed on 24 April 2021, with \$1,500,000 paid on 16 April 2021 and the remaining \$1,500,000 plus interest scheduled to be paid in June 2021.

On or about 24 March 2021 18,599,520 shares (6,695,827 post share consolidation on 7 June 2021) were issued to directors, executives and staff under the Company employee incentive scheme.

In May 2021, the Company raised \$1,045,000 through the sale of ordinary shares to new investors.

On the 7 June 2021, the Company consolidated its shares from 200,769,652 shares to 72,277,075 shares.

No other matter or circumstance has arisen since 31 December 2020 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
Directors' declaration
31 December 2020

In the directors' opinion:

- the attached financial statements and notes comply with the Accounting Standards as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year 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.

On behalf of the directors



Hon. Alan Stockdale AO
Non-Executive Chairman

12 June 2021

Independent Auditor's Report

To the Members of X2M Connect Limited

Report on the review of the half-year financial report

Opinion

We have reviewed the accompanying half-year financial report of X2M Connect Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the Directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of X2M Connect Limited does not:

- a present fairly, in all material respects, the Group's financial position as at 31 December 2020 and of its performance and cash flows for the half year ended on that date; and
- b comply with Accounting Standard AASB 134 *Interim Financial Reporting*.

Basis for opinion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Group for the half-year period ended 31 December 2020 reported a loss after tax of \$2,326,511 and cash outflows from operating activities of \$982,571 and as at 31 December 2020 the Group had net liabilities of \$3,727,772 and had a working capital deficiency, being current assets less current liabilities, of \$6,219,606. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation and fair presentation of the half-year financial report that in accordance with Australian Accounting Standards and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report to be free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report does not present fairly, in all material respects, the Group's financial position as at 31 December 2020 and of its performance and cash flows for the half year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 12 June 2021