

DXN Limited

ABN 46 620 888 548

Appendix 4E Preliminary Final Report - 30 June 2023

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1. Company details

Name of entity:	DXN Limited
ABN:	46 620 888 548
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

			\$
Revenues from ordinary activities (Continuing operations)	down	64.6% to	5,047,674
Loss from ordinary activities after tax attributable to the owners of DXN Limited	up	39.3% to	(9,612,620)
Loss for the year attributable to the owners of DXN Limited	up	39.3% to	(9,612,620)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax amounted to \$9,612,620 (30 June 2022: \$6,902,449).

FY2023 sales to customers were down 64.6% from FY2022 mainly due to uncertainty during the period from customers around the proposed sale of the DXN business to Flow Digital and subsequent termination of the business sale agreement. As per the update to the market on 28 December 2022, many customers delayed discussions and decisions, and now that the uncertainty has been resolved customers have resumed engagement with DXN. This is evidenced by an increase in sales activity in 2H FY23 and subsequent ASX announcements during 2H FY23.

As reported above, following the uncertainty impacting sales in 1H FY23, DXN showed modular sales manufacturing results during 2H F23 namely:

- On 3 April 2023, DXN entered into a contract with global mining company AngloAmerican to fabricate and supply a modular data centre for a total value of AUD\$1 million.
 - On 3 May 2023, DXN received a purchase order for US\$392,885 (approximately AUD\$590,000) for the first DXN Module from Flow2Edge Holdings I Pte Ltd ('Flow2Edge') as part of its Exclusive Global Distribution Licence Agreement targeting the international export market (excluding Australia) for DXN data centre modules.
 - DXN also entered into an additional sales support arrangement with Flow2Edge for an annualized value of AUD\$362,400 as part of its Exclusive Global Distribution Licence Agreement to support Flow2Edge edge data centre expansion across Asia Pacific (excluding Australia).
 - On 30 June 2023, DXN announced that it has executed a contract for 2 x Modular data centres with Pilbara Minerals Ltd (ASX: PLS) totalling AUD\$1.8 million.
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3. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

4. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.02)</u>	<u>0.25</u>

5. Control gained over entities

Not applicable.

6. Loss of control over entities

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Audit qualification or review

Details of audit/review dispute or qualification (if any):

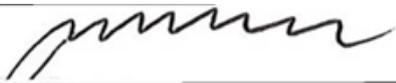
The financial statements are in the process of being audited. The directors anticipate that the auditor's report will contain an unqualified audit opinion with a paragraph addressing material uncertainty related to going concern.

9. Attachments

Details of attachments (if any):

The Appendix 4E Preliminary Final Report of DXN Limited for the year ended 30 June 2023 is attached.

10. Signed

Signed 

Date: 28 August 2023

Peter McGrath
Non-Executive Chairman

	Note	Consolidated 2023 \$	2022 \$
Revenue from continuing operations			
Sales to customers	2	5,047,674	14,263,007
Cost of goods sold		<u>(2,467,702)</u>	<u>(10,474,955)</u>
Gross margin		2,579,972	3,788,052
Other income	3	1,119,998	960,032
Interest revenue calculated using the effective interest method		-	650
Expenses			
Acquisition expenses		-	(10,615)
Administration expenses		(420,616)	(341,201)
Compliance and legal expenses		(398,865)	(556,821)
Consultants and contractors		(212,894)	(172,245)
Depreciation and amortisation expenses	4	(2,652,225)	(3,375,701)
Employee benefits expenses		(3,254,300)	(4,496,488)
Impairment of non-financial assets	4	(3,561,289)	-
Impairment of inventories		(494,760)	-
Impairment of receivables	8	(18,311)	-
Loss on disposal of assets		(37,198)	-
Marketing expenses		(23,714)	(17,834)
Occupancy expenses		(641,498)	(878,007)
Research and development expenses		(38,970)	(504,971)
Telecommunication and technology expenses		(157,530)	(143,526)
Travel expenses		(65,378)	(76,481)
Finance costs	4	<u>(1,417,744)</u>	<u>(1,187,646)</u>
Loss before income tax expense from continuing operations		(9,695,322)	(7,012,802)
Income tax expense		-	-
Loss after income tax expense from continuing operations		(9,695,322)	(7,012,802)
Profit after income tax expense from discontinued operations	5	<u>82,702</u>	<u>110,353</u>
Loss after income tax expense for the year attributable to the owners of DXN Limited		(9,612,620)	(6,902,449)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to the owners of DXN Limited		<u>(9,612,620)</u>	<u>(6,902,449)</u>
Total comprehensive loss for the year is attributable to:			
Continuing operations		(9,695,322)	(7,012,802)
Discontinued operations		<u>82,702</u>	<u>110,353</u>
		<u>(9,612,620)</u>	<u>(6,902,449)</u>

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

	Note	2023 Cents	2022 Cents
Earnings per share for loss from continuing operations attributable to the owners of DXN Limited			
Basic earnings per share	6	(0.57)	(0.51)
Diluted earnings per share	6	(0.57)	(0.51)
Earnings per share for profit from discontinued operations attributable to the owners of DXN Limited			
Basic earnings per share	6	-	0.01
Diluted earnings per share	6	-	0.01
Earnings per share for loss attributable to the owners of DXN Limited			
Basic earnings per share	6	(0.57)	(0.50)
Diluted earnings per share	6	(0.57)	(0.50)

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

	Note	Consolidated 2023 \$	Consolidated 2022 \$
Assets			
Current assets			
Cash and cash equivalents	7	710,209	1,924,767
Trade and other receivables	8	221,316	649,672
Inventories/work in progress	9	375,705	1,248,380
Other assets	11	141,436	134,460
		<u>1,448,666</u>	<u>3,957,279</u>
Assets of disposal groups classified as held for sale	15	6,588,989	-
Total current assets		<u>8,037,655</u>	<u>3,957,279</u>
Non-current assets			
Property, plant and equipment	12	1,159,693	7,193,482
Right-of-use assets	13	8,358,447	11,184,958
Intangibles	14	236,942	3,796,859
Bank guarantees and deposits	10	265,302	528,917
Other assets	11	423,333	608,333
Total non-current assets		<u>10,443,717</u>	<u>23,312,549</u>
Total assets		<u>18,481,372</u>	<u>27,269,828</u>
Liabilities			
Current liabilities			
Trade and other payables	16	976,154	2,503,210
Contract liabilities	17	698,271	332,507
Borrowings	18	143,844	58,971
Lease liabilities	19	716,011	728,679
Employee benefits	20	148,343	156,743
Income in advance	21	416,667	-
Other financial liabilities	22	910,315	850,000
		<u>4,009,605</u>	<u>4,630,110</u>
Liabilities directly associated with assets classified as held for sale	23	1,928,973	-
Total current liabilities		<u>5,938,578</u>	<u>4,630,110</u>
Non-current liabilities			
Borrowings	18	4,113,450	4,000,000
Lease liabilities	19	8,190,144	10,775,981
Employee benefits	20	14,344	16,038
Other financial liabilities	22	400,000	400,000
Total non-current liabilities		<u>12,717,938</u>	<u>15,192,019</u>
Total liabilities		<u>18,656,516</u>	<u>19,822,129</u>
Net (liabilities)/assets		<u>(175,144)</u>	<u>7,447,699</u>
Equity			
Issued capital	24	45,424,949	43,471,842
Reserves	25	1,428,566	1,391,896
Accumulated losses		<u>(47,028,659)</u>	<u>(37,416,039)</u>
Total (deficiency)/equity		<u>(175,144)</u>	<u>7,447,699</u>

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

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	40,345,107	1,176,956	(30,513,590)	11,008,473
Loss after income tax expense for the year	-	-	(6,902,449)	(6,902,449)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(6,902,449)	(6,902,449)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 24)	3,343,967	-	-	3,343,967
Capital raising costs	(217,232)	32,667	-	(184,565)
Share-based payments (note 25)	-	182,273	-	182,273
Balance at 30 June 2022	<u>43,471,842</u>	<u>1,391,896</u>	<u>(37,416,039)</u>	<u>7,447,699</u>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2022	43,471,842	1,391,896	(37,416,039)	7,447,699
Loss after income tax expense for the year	-	-	(9,612,620)	(9,612,620)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(9,612,620)	(9,612,620)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares (note 24)	2,125,000	-	-	2,125,000
Capital raising costs	(171,893)	-	-	(171,893)
Share-based payments (note 25)	-	36,670	-	36,670
Balance at 30 June 2023	<u>45,424,949</u>	<u>1,428,566</u>	<u>(47,028,659)</u>	<u>(175,144)</u>

	Note	Consolidated 2023 \$	2022 \$
Cash flows from operating activities			
Receipts from customers		8,850,520	16,630,159
Payments to suppliers and employees		(11,475,230)	(17,888,368)
R&D tax incentive claim		1,029,786	826,741
Government grants		67,567	66,162
Interest received		9,356	650
Interest paid		(453,677)	(16,353)
Other income		-	2,034
		<u>(1,971,678)</u>	<u>(378,975)</u>
Cash flows from investing activities			
Payments associated with the acquisition of business		-	(3,816,574)
Payments for plant and equipment		(136,278)	(24,334)
Payments for intangible assets		(197,786)	(25,272)
		<u>(334,064)</u>	<u>(3,866,180)</u>
Cash flows from financing activities			
Proceeds from issue of shares and options	24	2,125,000	3,143,967
Payment of capital raising costs	24	(171,893)	(202,230)
Finance facility drawn down		-	4,000,000
Repayment of finance facility		(287,464)	(1,867,716)
Transaction costs related to loans and borrowings		-	(567,210)
		<u>1,665,643</u>	<u>4,506,811</u>
Net cash from financing activities			
Net (decrease)/increase in cash and cash equivalents		(640,099)	261,656
Cash and cash equivalents at the beginning of the financial year		1,924,767	1,663,955
Effects of exchange rate changes on cash and cash equivalents		(16,375)	(844)
		<u>(16,375)</u>	<u>(844)</u>
Cash and cash equivalents at the end of the financial year	7	<u>1,268,293</u>	<u>1,924,767</u>

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

Note 1. Operating segments

Identification of reportable operating segments

The Group is organised into two operating segments: Data centre manufacturing and Data centre operations. These operating segments are based on the internal reports that are reviewed and used by the Chief Executive Officer ('CEO') and the Group's Executive Leadership Team (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The information reported to the CODM on a monthly basis is the segment profit that represents the profit earned by each segment without allocation of the share of central administration costs including directors' salaries, finance income, non-operating gains and losses in respect of financial instruments and finance costs, and income tax expense.

Operating segment information

Major customers

The Group has a number of customers to which it provides services and products.

Data centre manufacturing

The Group supplies a number of customers, of which during the year ended 30 June 2023 one accounted for 49.8% of revenue (2022: main customer was 33%). The next most significant contributed 16.02% (2022: 25%).

Data centre operations

The Group supplies a number of customers, of which during the year ended 30 June 2023 one accounted for 75.6% of revenue (2022: main customer was 42%).

The data centre operations of Secure Data Centre in Darwin have been disclosed in this report as 'Discontinued operations' – see note 5.

There were no intersegment sales during the reporting periods.

Operating segment information

	Data centre manufacturing \$	Data centre operations \$	Other (Corporate) \$	Total \$
Consolidated - 2023				
Revenue				
Revenue from external customers	3,838,743	2,737,448	-	6,576,191
Other income	1,107,097	41,195	26,887	1,175,179
Total revenue	<u>4,945,840</u>	<u>2,778,643</u>	<u>26,887</u>	<u>7,751,370</u>
Results				
Loss before income tax	(375,371)	(6,592,192)	(2,645,057)	(9,612,620)
Income tax	-	-	-	-
Loss after income tax	<u>(375,371)</u>	<u>(6,592,192)</u>	<u>(2,645,057)</u>	<u>(9,612,620)</u>
Assets				
Segment assets	1,949,774	9,592,075	6,939,523	18,481,372
Total assets				<u>18,481,372</u>
Liabilities				
Segment liabilities	2,724,339	10,038,917	5,893,260	18,656,516
Total liabilities				<u>18,656,516</u>

Note 1. Operating segments (continued)

Consolidated - 2022	Data centre manufacturing \$	Data centre operations \$	Other (Corporate) \$	Total \$
Revenue				
Revenue from external customers	13,131,413	2,255,040	-	15,386,453
Other income	17,237	36,733	941,775	995,745
Total revenue	<u>13,148,650</u>	<u>2,291,773</u>	<u>941,775</u>	<u>16,382,198</u>
Results				
Profit/(loss) before income tax	1,083,518	(4,102,686)	(3,883,281)	(6,902,449)
Profit/(loss) after income tax	<u>1,083,518</u>	<u>(4,102,686)</u>	<u>(3,883,281)</u>	<u>(6,902,449)</u>
Assets				
Segment assets	3,320,218	21,697,912	2,251,698	27,269,828
Total assets				<u>27,269,828</u>
Liabilities				
Segment liabilities	3,599,571	11,394,313	4,828,245	19,822,129
Total liabilities				<u>19,822,129</u>

Assets used jointly by reportable segments are allocated on the basis of the revenues earned by the individual reportable segments.

All revenue is derived in Australia.

Note 2. Revenue

	Consolidated 2023 \$	2022 \$
From continuing operations		
<i>Revenue from contracts with customers</i>		
Sales to customers	<u>5,047,674</u>	<u>14,263,007</u>

100% of the Group's revenue from external customers is recognised over time.

All revenue is derived in Australia.

Note 3. Other income

	Consolidated 2023 \$	2022 \$
From continuing operations		
Research and development tax incentive claim	1,029,786	826,741
Export marketing development grant	36,600	50,959
Government wage subsidies	30,967	17,237
Net foreign exchange gain	118	63,475
Other	<u>22,527</u>	<u>1,620</u>
Other income	<u>1,119,998</u>	<u>960,032</u>

Note 4. Expenses

	Consolidated	
	2023	2022
	\$	\$
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Depreciation - property, plant and equipment	1,269,203	2,121,831
Depreciation - right-of-use assets	938,325	755,367
Total depreciation	<u>2,207,528</u>	<u>2,877,198</u>
<i>Amortisation</i>		
Amortisation - intangibles	444,697	498,503
Total depreciation and amortisation	<u>2,652,225</u>	<u>3,375,701</u>
<i>Impairment of non-financial assets</i>		
Plant and equipment	3,536,377	-
Intangibles	24,912	-
Total impairment	<u>3,561,289</u>	<u>-</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	710,446	491,562
Interest and finance charges paid/payable on lease liabilities	707,298	696,084
	<u>1,417,744</u>	<u>1,187,646</u>
<i>Leases</i>		
Short-term lease payments	-	140,874
<i>Superannuation expense</i>		
Defined contribution superannuation expense	311,646	302,074
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	<u>2,942,654</u>	<u>4,194,414</u>

Note 5. Discontinued operations

Description

DXN's Secure Data Centre in Darwin has been classified in these financial statements as 'discontinued operations' as the Board continues to consider all strategic options to sell its data centre operations assets. DXN has received non-binding indicative offers to acquire its data centre assets and negotiations are in advanced stages.

Note 5. Discontinued operations (continued)

Financial performance information

	Consolidated	
	2023	2022
	\$	\$
Sales to customers	1,528,516	1,123,446
Cost of goods sold	(377,170)	(260,250)
Gross margin	<u>1,151,346</u>	<u>863,196</u>
Other income	55,182	35,713
Administration expenses	(12,338)	(11,411)
Compliance and legal expenses	(8,050)	(2,500)
Consultants and contractors	(250,800)	(167,200)
Depreciation and amortisation expenses	(465,774)	(328,678)
Employee benefits expenses	(102,262)	(90,646)
Loss on disposal of assets	(13,987)	-
Marketing expenses	(1,819)	(1,091)
Occupancy expenses	(135,371)	(95,122)
Telecommunication and technology expenses	(19,813)	(12,763)
Travel expenses	-	(1,821)
Finance costs	(113,612)	(77,324)
Total expenses	<u>(1,123,826)</u>	<u>(788,556)</u>
Profit before income tax expense	82,702	110,353
Income tax expense	-	-
Profit after income tax expense from discontinued operations	<u><u>82,702</u></u>	<u><u>110,353</u></u>

Cash flow information

	Consolidated	
	2023	2022
	\$	\$
Net cash from operating activities	283,369	84,353
Net cash (used in) investing activities	(1,900)	(4,505)
Net cash from financing activities	-	-
Net increase in cash and cash equivalents from discontinued operations	<u><u>281,469</u></u>	<u><u>79,848</u></u>

Note 6. Earnings per share

	Consolidated	
	2023	2022
	\$	\$
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of DXN Limited	<u>(9,695,322)</u>	<u>(7,012,802)</u>
	Cents	Cents
Basic earnings per share	(0.57)	(0.51)
Diluted earnings per share	(0.57)	(0.51)

Note 6. Earnings per share (continued)

	Consolidated 2023 \$	2022 \$
<i>Earnings per share for profit from discontinued operations</i>		
Profit after income tax attributable to the owners of DXN Limited	<u>82,702</u>	<u>110,353</u>
	Cents	Cents
Basic earnings per share	-	0.01
Diluted earnings per share	-	0.01
	Consolidated 2023 \$	2022 \$
<i>Earnings per share for loss</i>		
Loss after income tax attributable to the owners of DXN Limited	<u>(9,612,620)</u>	<u>(6,902,449)</u>
	Cents	Cents
Basic earnings per share	(0.57)	(0.50)
Diluted earnings per share	(0.57)	(0.50)
	Number	Number
<i>Weighted average number of ordinary shares</i>		
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,693,232,645</u>	<u>1,385,110,998</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,693,232,645</u>	<u>1,385,110,998</u>

At 30 June 2023 and 30 June 2022, options, warrants and performance rights over ordinary shares were excluded from the calculation of the weighted average number of ordinary shares used in calculating diluted earnings per share due to being anti-dilutive, as the Group reported a loss for the period.

Note 7. Cash and cash equivalents

	Consolidated 2023 \$	2022 \$
<i>Current assets</i>		
Cash at bank and on hand	<u>710,209</u>	<u>1,924,767</u>
<i>Reconciliation to cash and cash equivalents at the end of the financial year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	710,209	1,924,767
Cash and cash equivalents - classified as held for sale (note 15)	<u>558,084</u>	<u>-</u>
Balance as per statement of cash flows	<u>1,268,293</u>	<u>1,924,767</u>

Note 8. Trade and other receivables

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Trade receivables	239,627	635,390
Less: Allowance for expected credit losses	(18,311)	-
	<u>221,316</u>	<u>635,390</u>
GST receivable	-	14,282
	<u>221,316</u>	<u>649,672</u>

Allowance for expected credit losses

The Group has recognised a loss of \$18,311 in the profit or loss in respect of the expected credit losses for the year ended 30 June 2023 (2022: \$nil).

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2023	2022	2023	2022	2023	2022
	%	%	\$	\$	\$	\$
0 to 30 days	7.922%	-	231,125	314,975	18,311	-
30 to 60 days	-	-	982	8,416	-	-
60 to 90 days	-	-	-	-	-	-
over 90 days	-	-	7,520	311,999	-	-
			<u>239,627</u>	<u>635,390</u>	<u>18,311</u>	<u>-</u>

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2023	2022
	\$	\$
Opening balance	-	-
Additional provisions recognised	18,311	-
Receivables written off during the year as uncollectable	-	-
	<u>18,311</u>	<u>-</u>
Closing balance	<u>18,311</u>	<u>-</u>

Note 9. Inventories/work in progress

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Materials and consumables	234,151	467,366
Work in progress - Customers (contract asset) ¹	141,554	781,014
	<u>375,705</u>	<u>1,248,380</u>

¹ Relates to external customers.

Note 10. Bank guarantees and deposits

	Consolidated	
	2023	2022
	\$	\$
5 Parkview Drive, Olympic Park, Sydney NSW ¹	231,385	495,000
3 Dampier Road, Welshpool, WA ¹	33,917	33,917
	<u>265,302</u>	<u>528,917</u>

¹ Relates to deposits given to landlords' legal representatives at 30 June 2022 over leased premises. These deposits are held in solicitor trust accounts and are classified as restricted cash.

Note 11. Other assets

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Prepayments	127,880	120,904
Other deposits	13,556	13,556
	<u>141,436</u>	<u>134,460</u>
<i>Non-current assets</i>		
Other non-current assets (Borrowing costs capitalised net of amortisation)	423,333	608,333
	<u>564,769</u>	<u>742,793</u>

Note 12. Property, plant and equipment

	Consolidated 2023 \$	2022 \$
<i>Non-current assets</i>		
Leasehold improvements - at cost	2,384	3,045,118
Less: Accumulated depreciation	<u>(2,384)</u>	<u>(693,259)</u>
	-	2,351,859
Plant and equipment - at cost	417,220	286,054
Less: Accumulated depreciation	<u>(190,805)</u>	<u>(151,425)</u>
	226,415	134,629
Motor vehicles - at cost	26,016	26,016
Less: Accumulated depreciation	<u>(15,302)</u>	<u>(12,050)</u>
	10,714	13,966
Office equipment - at cost	28,798	61,126
Less: Accumulated depreciation	<u>(28,158)</u>	<u>(50,558)</u>
	640	10,568
DC modules - at cost	1,348,388	10,415,688
Less: Accumulated depreciation	<u>(427,149)</u>	<u>(5,768,198)</u>
	921,239	4,647,490
ICT hardware - at cost	86,962	340,736
Less: Accumulated depreciation	<u>(86,277)</u>	<u>(305,766)</u>
	685	34,970
	<u>1,159,693</u>	<u>7,193,482</u>

Note 13. Right-of-use assets

	Consolidated 2023 \$	2022 \$
<i>Non-current assets</i>		
Land and buildings - right-of-use	10,222,419	12,178,466
Less: Accumulated depreciation	<u>(1,863,972)</u>	<u>(993,508)</u>
	<u>8,358,447</u>	<u>11,184,958</u>

Additions to the right-of-use assets during the year were \$nil (30 June 2022: \$3,125,008).

Right-of-use assets relate to leased properties in Perth, Sydney and Hobart.

The Group leases land and buildings under agreements of between three to fifteen years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

For AASB 16 Lease disclosures refer to:

- note 4 for depreciation on right-of-use assets, interest on lease liabilities and short term leases;
- note 19 for lease liabilities; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 14. Intangibles

	Consolidated	
	2023	2022
	\$	\$
<i>Non-current assets</i>		
Goodwill - at cost	25,541	1,986,421
Module development - at cost	195,951	38,970
Patents and trademarks - at cost	-	36,480
Less: Accumulated amortisation	-	(8,390)
	-	28,090
Software - at cost	112,729	232,167
Less: Accumulated amortisation	(97,279)	(141,443)
	15,450	90,724
Customer contracts - at cost	1,342,104	2,703,418
Less: Accumulated amortisation	(1,342,104)	(1,050,764)
	-	1,652,654
	<u>236,942</u>	<u>3,796,859</u>

Note 15. Assets of disposal groups classified as held for sale

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Cash and cash equivalents	558,084	-
Trade and other receivables	38,897	-
Property, plant and equipment	1,119,257	-
Right-of-use assets	1,786,396	-
Intangibles	3,086,355	-
	<u>6,588,989</u>	<u>-</u>

Assets classified as held for sale relate to the Secure Data Centre (Darwin DC facility) which the DXN Board determined during the financial year as a facility to be sold as part of a decision to streamline data centre operations.

Note 16. Trade and other payables

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Trade payables ¹	450,374	2,152,202
GST payable	65,999	-
Payroll liabilities	81,481	162,552
Other payables and accruals ²	378,300	188,456
	<u>976,154</u>	<u>2,503,210</u>

Terms and conditions relating to the above financial instruments.

¹ Trade payables are non-interest bearing and generally on 30 day terms.

² Other payables are non-interest bearing have no fixed repayment terms.

Note 17. Contract liabilities

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Contract liabilities ¹	<u>698,271</u>	<u>332,507</u>

¹ Relates to amounts received in advance from external customers for the custom-built DXN data centre and cable landing station modules.

Note 18. Borrowings

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Insurance premium funding	118,265	60,855
FlexiCommercial Pty Ltd ¹	42,888	-
Less: Unexpired charges	<u>(17,309)</u>	<u>(1,884)</u>
	143,844	58,971
<i>Non-current liabilities</i>		
FlexiCommercial Pty Ltd ¹	132,238	-
Pure Asset Management Pty Ltd ²	4,000,000	4,000,000
Less: Unexpired charges	<u>(18,788)</u>	<u>-</u>
	4,113,450	4,000,000
	<u>4,257,294</u>	<u>4,058,971</u>

Note 18. Borrowings (continued)

¹ This is a Chattel Mortgage Facility with FlexiCommercial Pty Ltd for a Pressbrake Machine in use in the Perth factory. The interest rate on this facility is 9.996% and is repayable over 5 years (60 months) with no balloon payment.

² \$4,000,000 secured facility with Pure Asset Management Pty Ltd ('Pure') is to finance working capital and acquisitions. The interest rate on this facility (including line fee) is 11.25% per annum. In addition, there was a 2.5% establishment fee. This facility is due to mature on 14 October 2025 and is secured by a General Security Agreement over the assets of the Company. Financial covenants were fully complied with at 30 June 2022.

As previously disclosed, DXN reported a breach of a financial covenant to Pure, where the Group's cash balance had fallen below \$1,250,000. On 5 August 2022, Pure provided a waiver for the breach of the covenant, subject to DXN executing the following agreements:

- i) a business purchase agreement in relation to the main assets and undertaking of the Group; and
- ii) an underwriting agreement between the Borrower and the Lender in connection with the proposed \$2,125,000 share placement by the Borrower, each in a form satisfactory to the Lender.

As announced to the market on 5 August 2022, both agreements were successfully executed. Additionally, Pure amended the Facility Agreement by increasing the level of cash required under its financial covenant to \$1,600,000.

On 20 March 2023, Pure provided DXN with a letter of forbearance whereby the key covenant has been agreed as a minimum cash balance of \$1,250,000 during the forbearance period ended 15 May 2023. On 30 June 2023, Pure provided another letter of forbearance whereby the key covenant has been agreed as a minimum cash balance of \$500,000 during the forbearance period due to end on 1 September 2023. Amended financial covenants were fully complied with at 30 June 2023.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated 2023	2022
	\$	\$
Total facilities		
Insurance premium funding	118,265	60,855
FlexiCommercial Pty Ltd	162,180	-
Pure Asset Management Pty Ltd	4,000,000	4,000,000
	<u>4,280,445</u>	<u>4,060,855</u>
Used at the reporting date		
Insurance premium funding	118,265	60,855
FlexiCommercial Pty Ltd	162,180	-
Pure Asset Management Pty Ltd	4,000,000	4,000,000
	<u>4,280,445</u>	<u>4,060,855</u>
Unused at the reporting date		
Insurance premium funding	-	-
FlexiCommercial Pty Ltd	-	-
Pure Asset Management Pty Ltd	-	-
	<u>-</u>	<u>-</u>

Note 19. Lease liabilities

	Consolidated 2023 \$	2022 \$
<i>Current liabilities</i>		
Lease liability	716,011	728,679
<i>Non-current liabilities</i>		
Lease liability	8,190,144	10,775,981
	<u>8,906,155</u>	<u>11,504,660</u>

Note 20. Employee benefits

	Consolidated 2023 \$	2022 \$
<i>Current liabilities</i>		
Annual leave	148,343	156,743
<i>Non-current liabilities</i>		
Long service leave	14,344	16,038
	<u>162,687</u>	<u>172,781</u>

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated 2023 \$	2022 \$
Employee benefits obligation expected to be settled after 12 months	<u>14,344</u>	<u>16,038</u>

Note 21. Income in advance

	Consolidated 2023 \$	2022 \$
<i>Current liabilities</i>		
Income in advance	<u>416,667</u>	<u>-</u>

As per the Exclusive Global Distribution License Agreement ('EGDLA') signed with Flow2Edge Holdings I Pte Ltd ('Flow'), and announced to the market on 28 November 2022, DXN received an upfront \$2 million exclusivity fee for an initial 10-year agreement for worldwide (excluding Australia) exclusivity for the marketing and distribution of DXN Modules. During the first 12 months of the EGDLA, commencing 180 days from the date of signing, FLOW2Edge must place orders with DXN for a minimum of 10 DXN Modules. The first \$1 million of this exclusivity fee has been immediately recognised upon receipt, whilst the remaining \$1 million will be recognised over the first twelve months of the agreement.

Note 22. Other financial liabilities

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Other financial liabilities ¹	910,315	850,000
<i>Non-current liabilities</i>		
Other financial liabilities ²	400,000	400,000
	<u>1,310,315</u>	<u>1,250,000</u>

¹ This amount was withheld from the purchase price of SDC to cover any warranty claims associated with the acquisition, which is yet to be paid by the Company and is currently accruing agreed default interest until paid.

² 200 million warrants were issued to Pure Asset Management Pty Ltd as part of the New Debt Facility arrangement, as announced to the market on 9 September 2021. These warrants have a 48 month term and expire on 15 October 2025.

Note 23. Liabilities directly associated with assets classified as held for sale

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Trade payables	12,168	-
Payroll liabilities	2,110	-
GST payable	13,307	-
Lease liability	1,869,826	-
Employee benefits	31,562	-
	<u>1,928,973</u>	<u>-</u>

Note 24. Issued capital

	Consolidated			
	2023	2022	2023	2022
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>1,721,314,836</u>	<u>1,471,314,836</u>	<u>45,424,949</u>	<u>43,471,842</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2021	1,105,318,536		40,345,107
Issue of shares - placement	10 September 2021	182,662,966	\$0.0090	1,643,967
Issue of shares - share purchase plan	6 October 2021	134,666,622	\$0.0090	1,212,000
Issue of shares - purchase consideration	18 October 2021	16,666,667	\$0.0120	200,000
Issue of shares - share purchase plan shortfall	22 October 2021	32,000,045	\$0.0090	288,000
Capital raising costs		-		(184,565)
Capital raising costs - share-based payments		-		(32,667)
Balance	30 June 2022	1,471,314,836		43,471,842
Issue of shares - placement	11 August 2022	250,000,000	\$0.0085	2,125,000
Capital raising costs		-		(171,893)
Balance	30 June 2023	<u>1,721,314,836</u>		<u>45,424,949</u>

Note 24. Issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up in proportions that consider both the number of shares held and the extent to which those shares are paid up. 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

Management controls the capital of the Group in order to maintain a prudent debt to equity ratio, provide the shareholders with adequate returns and ensure the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

Management effectively manages the Group's capital by assessing the Groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There are no externally imposed capital requirements other than as disclosed in note 18.

The capital risk management policy remains unchanged from the 2022 Annual Report.

Note 25. Reserves

	Consolidated	
	2023	2022
	\$	\$
Share-based payments reserve	1,118,264	1,081,594
Option reserve	310,302	310,302
	<u>1,428,566</u>	<u>1,391,896</u>

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.

Option reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration.

Note 25. Reserves (continued)

Movements in reserves

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

Consolidated	Share-based payments \$	Option \$	Total \$
Balance at 1 July 2021	866,654	310,302	1,176,956
Capital raising costs	32,667	-	32,667
Share-based payments	<u>182,273</u>	<u>-</u>	<u>182,273</u>
Balance at 30 June 2022	1,081,594	310,302	1,391,896
Share-based payments	<u>36,670</u>	<u>-</u>	<u>36,670</u>
Balance at 30 June 2023	<u><u>1,118,264</u></u>	<u><u>310,302</u></u>	<u><u>1,428,566</u></u>