



ASX Announcement | 23 February 2022

X2M Connect Limited (ASX:X2M)

Appendix 4D and half year financial report for H1 FY22

Australian Internet of Things technology company X2M Connect Limited (ASX:X2M) ('X2M' or 'the Company') is pleased to provide its Appendix 4D financial statements for the half year ended 31 December 2021 (H1 FY22).

Ends

The Board of X2M has approved this announcement.

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About X2M Connect Group

X2M Connect Limited (ASX:X2M) is an Australian technology company that has developed and commercialised a patented proprietary Internet of Things (IoT) solution which delivers productivity improvements, cost savings and improved public safety to enterprise and government clients in the utilities sector.

X2M's technology connects devices such as water, gas and electricity meters and other utility sensors to the internet, enabling data exchange and the remote control of these devices. The Company generates revenue from the sale of hardware and monthly subscription fees under Software as a Service arrangements.

X2M now has more than 180,000 devices connected to its IoT platform and distributed intelligence solution, providing real-time information and control to a steadily increasing customer base operating over multiple radio technologies.

X2M's current focus is on servicing the utility sector in the Asia-Pacific region, where it has a number of government and enterprise customer relationships already in place. Going forward, X2M will look to continue its global expansion, with subsidiaries already operating in Japan, South Korea, Taiwan and, most recently, China.

To learn more about X2M click here: www.x2mconnect.com or follow us on [LinkedIn](#).

X2M Connect Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	X2M Connect Limited
ACN:	637 951 154
Reporting period:	For the period ended 31 December 2021
Previous period:	For the period ended 31 December 2020

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	43.6% to	4,585,322
Loss from ordinary activities after tax attributable to the owners of X2M Connect Limited	up	180.3% to	(6,521,437)
Loss for the period attributable to the owners of X2M Connect Limited	up	180.3% to	(6,521,437)

Dividends

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

Key points

The first half of the 2022 financial year was a strong one for X2M with the Company's strategy of investing in growth delivering results. Key operational metrics compared to the prior corresponding period (pcp) ended 31 December 2020 were:

- Revenues from ordinary activities were up 44% to \$4.6 million.
- 8 new enterprise and government customers were acquired bringing the total customer base up to 42, an increase of 24% on 30 June 2021.
- Total connected devices increased to 181,102 up from 123,256 at the end of FY21 financial year.
- Balance sheet strengthened following successful IPO and repayment of majority of borrowings.

Group Commentary

The H1 2022 results for the Company reflect the Company's strategy to invest in growth, move into new markets and one off costs associated with the September 2021 IPO. The loss for the Group after income tax amounted to \$6.5 million (31 December 2020: loss of \$2.3 million).

Revenue was \$4.6 million, up 44% on the pcp, reflecting significant organic growth across all operating jurisdictions. South Korean operations continued to perform well, driven by deployments at Bucheon and Okcheon. The Group also won significant tenders from Korea Water Resources Corporations (K Water) to deploy remote water monitoring solutions across three municipalities. Taiwan continued its progress as the Group's incubation hub securing its' first commercial deployment of X2M's new energy management solution. The China market, which the Group entered in 2021, made good progress earning revenues of \$1.4 million for the period. The Group's total connected devices increased to 181,102 at 31 December 2021, adding approximately 58,000 connected devices to its patented software platform over the period, representing 101% growth on the pcp.

Other income was \$0.2 million, being research and development tax incentive. The reduction compared to the pcp was predominately due to Australian government assistance of \$0.3 million received in the prior year.

Gross profit margin was 20%, compared to 32% pcp. This was mainly attributable to higher component costs associated with the global supply shortage of semi-conductors and lower margins for our first sales into the China market as part of X2M's growth strategy.

X2M Connect Limited
Appendix 4D
Half-year report

Total expenses, excluding non-cash share based payments and IPO expenses, were \$8.5 million up 51% on pcp. This increase was driven by:

- \$3.7 million in cost of sales, up 67%, or \$1.5 million on pcp reflecting increased sales volumes and higher component costs as outlined above.
- \$2.5 million in employee benefits and staff costs, up 15%, or \$0.3 million, on pcp to support the China market entry and growth in customers. It also included director and company secretarial fees which were not incurred in pcp.
- \$0.9 million in other expenses (pcp: \$0.2 million), including additional costs of being a listed entity and \$0.4 million incurred on delivering product upgrades.

Non-cash share based payments and IPO expenses were \$2.8 million (pcp: \$0.2 million).

Financial position

The Group's cash and cash equivalents as at 31 December 2021 were \$5.1 million, an increase of \$3.1 million from 30 June 2021, mainly attributable to \$8 million (before costs) raised at IPO offset by operating spent. Borrowings were reduced to \$0.2 million, down from \$2.4 million at 30 June 2021.

Please refer to the Review of Operations in the Directors' report in the attached financial report for further commentary.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>2.12</u>	<u>(2.01)</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. 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.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Year Financial Report.

11. Attachments

Details of attachments (if any):

The Half Year Financial Report of X2M Connect Limited for the period ended 31 December 2021 is attached.

12. Signed



Signed _____

Date: 23 February 2022

Hon. Alan Stockdale AO
Non-Executive Chairman
Melbourne

X2M Connect Limited

ACN 637 951 154

Half Year Financial Report - 31 December 2021

X2M Connect Limited**Contents****31 December 2021**

Corporate directory	2
Directors' report	3
Auditor's independence declaration	6
Statement of profit or loss and other comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	21
Independent auditor's review report to the members of X2M Connect Limited	22

X2M Connect Limited
Corporate directory
31 December 2021

Directors	Hon. Alan Stockdale AO (Non-Executive Chairman) Mr Damien Johnston (Non-Executive Director) Ms Jodie Leonard (Non-Executive Director) Mr John Stewart (Non-Executive Director)
Chief Executive Officer	Mr Mohan Jesudason
Company secretary	Mr Oliver Carton
Registered office and principle place of business	Suite 1.01b, Building B, 18-24 Ricketts Road, Mount Waverley, VIC 3149 Phone: 1800 926 926 (1800 X2M X2M)
Share register	Automic Group Level 5, 126 Phillip Street, Sydney, NSW 2000 Phone: +61 2 9698 5414
Auditor	Grant Thornton Collins Square Tower 5, 727 Collins Street, Melbourne VIC 3008
Stock exchange listing	X2M Connect Limited securities are listed on the Australian Securities Exchange (ASX code: X2M)
Website	www.x2mconnect.com

X2M Connect Limited
Directors' report
31 December 2021

Your directors present their report on the consolidated entity (referred to hereafter as “X2M” or as the “Group”) consisting of X2M Connect Limited and the entities it controlled at the half year ended 31 December 2021. X2M Connect Limited is a company limited by shares and domiciled in Australia. The company was incorporated on 9 December 2019.

Directors

The following persons were directors of X2M Connect Limited during the whole of the financial period and up to the date of this report:

Hon Alan Stockdale AO (Non-Executive Chairman)
Mr Damien Johnston (Non-Executive Director)
Ms Jodie Leonard (Non-Executive Director)
Mr John Stewart (Non-Executive Director)

Principal activities

X2M operates across the Asia Pacific Region with offices in Australia, Japan, South Korea, Taiwan and China. The Company employed 41 people at half year end.

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

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

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

X2M has more than 180,000 devices connected to its IoT platform and distributed intelligence solution. It generates real-time information and control to over 40 enterprise and government customers across Asia Pacific and operates over multiple radio technologies.

Review of operations

The first half of the 2022 financial year was a strong one for X2M with the Company's strategy of investing in growth delivering results.

Key highlights for the Group for the half year ending 31 December 2021 include:

- Revenue \$4.6 million, up 44% on the pcip
- Adjusted EBITDA loss \$3.0 million and loss after tax of \$6.5 million
- Connected devices 181,102, up 101% on the pcip
- Number of enterprise customers 42, up 24% from 30 June 2021
- Cash at bank \$5.1 million
- Total assets \$10.7 million, up 54% from 30 June 2021

Summary of Financial Results

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
Revenue	4,585	3,192
Adjusted EBITDA*	(3,026)	(1,356)
Depreciation and amortisation	(617)	(616)
Adjusted EBIT*	(3,643)	(1,972)
Share based payments expense**	(1,935)	-
One off IPO costs	(866)	(249)
Finance costs	(62)	(35)
Income tax expense	(15)	(71)
Loss after income tax	(6,521)	(2,327)

* Adjusted EBITDA is a non-IFRS measure calculated as earnings before income tax, and before depreciation and amortisation, finance costs, share based payments and one-off expenses. The Board assesses the underlying performance of the business based on measures of Adjusted EBITDA and Adjusted EBIT which excludes the effect of non-operating and non-recurring items.

** Share based payments expense relates to non-cash shares and options issued under the Employee Incentive Plan.

Segment performance

South Korea

South Korea remains the largest market for X2M and achieved revenue of \$2.8 million, up 22% on the pcp.

During the period, X2M was selected by K Water, the principal government agency for water management, as the successful bidder for three tenders with an aggregated tender value of approximately A\$4.1 million. Winning a number of these tenders in quick succession shows X2M's leadership position in the South Korean market. This also aligns with the long-term strategy to secure customers with large numbers of households that will drive future subscription revenues.

South Korea reported an adjusted EBIT loss of \$1.3 million (31 December 2020: \$0.6 million). This was driven by the increase in expenses reflecting the strategy to invest in growth, increase market penetration and secure market leadership. Results also reflect the increased cost of goods driven by increased revenues and lower gross profit margin mainly attributable to higher component costs associated with the global shortage of semi-conductors.

Taiwan

Taiwan achieved revenue of \$0.2 million, down 52% on pcp mainly attributable to a one off hardware sales contract in the pcp, and an adjusted EBIT loss of \$0.4 million (31 December 2020: \$0.4 million). Revenue was mainly attributable to the ETC project completed in November 2021, ETC is the "Taiwan Testing and Certification Center", a government-sponsored body that, amongst other things, advises policymakers on technology trends, technology solutions and public policy formulation. ETC through a public tender invited applicants to participate in an energy sustainability project. The project brought together energy from solar and the grid, the ability to distribute this to battery storage, EV charging, servicing all aspects of building energy management, and remotely controlling end devices such as air conditioners. This project forms part of the X2M strategy to participate in the electricity utility ecosystem.

Other

The Other segment consists of Japan, Hong Kong and Australia. Australia continued to be the cost centre for corporate costs including head office expenses and R&D software development costs. This segment reported revenue of \$0.2 million and an adjusted EBIT loss of \$1.8 million. In Japan, X2M continued to grow connected devices under a licensing arrangement. Total connected devices in Japan at 31 December 2021 reached 97,233, an increase of 153% from 31 December 2020 and 60% from 30 June 2021.

\$1.9 million of non-cash share based payments were incurred, including \$1.8 million associated with options that were issued and fully expensed during the period. These security issues were described in the Replacement Prospectus for the IPO.

Significant changes in the state of affairs

On 22 September 2021, X2M began trading on the Australian Securities Exchange as ASX:X2M.

There were no other significant changes in the state of affairs of the Group during the financial period.

Matters subsequent to the end of the financial period

On 25 January 2022, the Company announced that it had secured a new SaaS and maintenance contract for the South Korean municipality of Gochang. The contract is for three years of remote water monitoring and is worth approximately A\$1.0 million over the contract term.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Legal Proceedings

As foreshadowed in section 11.1 of the Replacement Prospectus issued by X2M dated 24 August 2021 (Replacement Prospectus), the plaintiffs in the legal proceedings involving Freestyle Technology Limited (Freestyle) have obtained leave of the Court to join X2M Connect Limited to those proceedings following their payment into Court of the required security for costs. X2M did not object to being joined to these proceedings. A directions hearing is set for the 6 May 2022.

As disclosed in the Replacement Prospectus, those legal proceedings were commenced against Freestyle (the vendor who sold its assets to the Company through a liquidation sale) and other defendants in May 2019. X2M did not exist at this time and will vigorously defend any claim against it. Furthermore, if the plaintiff's claims are ultimately successful (which the Company considers is very unlikely), the Company believes that the appropriate assessment of quantum is nil, and therefore the risk to the Company and Shareholders is not material.

The Company will update shareholders with any material developments in the proceedings.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Hon. Alan Stockdale AO
Non-Executive Chairman

23 February 2022

Auditor's Independence Declaration

To the Directors of X2M Connect Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of X2M Connect Limited for the half-year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 23 February 2022

X2M Connect Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2021

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$	\$
Revenue	5	4,585,322	3,192,231
Other income		178,271	413,183
Total revenue and other income		<u>4,763,593</u>	<u>3,605,414</u>
Expenses			
Cost of sales		(3,652,123)	(2,184,025)
Employee benefits expense		(2,539,056)	(2,217,355)
Share based payments expense	6	(1,935,268)	-
Depreciation and amortisation expense		(616,886)	(615,663)
Short-term lease expenses		(30,941)	(41,354)
Other expenses		(973,191)	(248,022)
Professional fees		(594,007)	(270,588)
IPO expenses		(866,327)	(248,517)
Finance costs		(62,231)	(34,972)
Total expenses		<u>(11,270,030)</u>	<u>(5,860,496)</u>
Loss before income tax expense		(6,506,437)	(2,255,082)
Income tax expense		<u>(15,000)</u>	<u>(71,429)</u>
Loss after income tax expense for the period attributable to the owners of X2M Connect Limited		(6,521,437)	(2,326,511)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(43,590)</u>	<u>(37,136)</u>
Other comprehensive income for the period, net of tax		<u>(43,590)</u>	<u>(37,136)</u>
Total comprehensive income for the period attributable to the owners of X2M Connect Limited		<u><u>(6,565,027)</u></u>	<u><u>(2,363,647)</u></u>
		Cents	Cents
Basic earnings per share	15	(6.36)	(4.58)
Diluted earnings per share	15	(6.36)	(4.58)

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 2021

		Consolidated	
		31 December	
	Note	2021	30 June 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		5,120,691	1,952,842
Trade and other receivables		484,759	204,826
Contract assets		257,552	237,483
Inventories		66,741	76,317
Other assets	7	1,442,320	1,506,599
Total current assets		<u>7,372,063</u>	<u>3,978,067</u>
Non-current assets			
Property, plant and equipment and right-of-use assets		570,469	632,856
Intangible assets	8	2,574,323	2,196,687
Other assets	7	169,578	128,021
Total non-current assets		<u>3,314,370</u>	<u>2,957,564</u>
Total assets		<u>10,686,433</u>	<u>6,935,631</u>
Liabilities			
Current liabilities			
Trade and other payables		1,380,595	2,044,068
Contract liabilities	9	2,607,267	1,070,696
Borrowings		172,725	2,408,423
Lease liabilities		172,811	129,056
Derivative financial instruments		-	31,488
Employee benefits		741,385	675,331
Provisions		-	28,540
Total current liabilities		<u>5,074,783</u>	<u>6,387,602</u>
Non-current liabilities			
Lease liabilities		377,685	113,232
Employee benefits		241,046	249,577
Total non-current liabilities		<u>618,731</u>	<u>362,809</u>
Total liabilities		<u>5,693,514</u>	<u>6,750,411</u>
Net assets		<u>4,992,919</u>	<u>185,220</u>
Equity			
Issued capital	10	19,298,660	9,412,958
Reserves	11	1,859,008	415,574
Accumulated losses		<u>(16,164,749)</u>	<u>(9,643,312)</u>
Total equity		<u>4,992,919</u>	<u>185,220</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 2021

Consolidated	Issued capital \$	Reserves \$	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	<u>260</u>	<u>(13,323)</u>	<u>(3,714,709)</u>	<u>(3,727,772)</u>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	9,412,958	415,574	(9,643,312)	185,220
Loss after income tax expense for the period	-	-	(6,521,437)	(6,521,437)
Other comprehensive income for the period, net of tax	-	(43,590)	-	(43,590)
Total comprehensive income for the period	-	(43,590)	(6,521,437)	(6,565,027)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 10)	7,047,433	-	-	7,047,433
Issue of shares on conversion of convertible notes	2,000,000	-	-	2,000,000
Transfers	652,431	(652,431)	-	-
Options issued as consideration for Public Offer services	-	390,025	-	390,025
Share based payments	185,838	1,749,430	-	1,935,268
Balance at 31 December 2021	<u>19,298,660</u>	<u>1,859,008</u>	<u>(16,164,749)</u>	<u>4,992,919</u>

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 2021

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$	\$
Cash flows from operating activities			
Receipts from customers and other sources		6,841,217	3,899,220
Payments to suppliers and employees (inclusive of GST)		<u>(10,101,450)</u>	<u>(4,881,791)</u>
Net cash used in operating activities		<u>(3,260,233)</u>	<u>(982,571)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(6,045)	-
Payments for intangibles		(375,954)	(535,566)
Payments for security deposits		<u>(91,167)</u>	<u>-</u>
Net cash used in investing activities		<u>(473,166)</u>	<u>(535,566)</u>
Cash flows from financing activities			
Proceeds from issue of shares	10	8,000,000	-
Share issue transaction costs		(561,117)	-
Proceeds from convertible notes		500,000	1,150,000
Net proceeds/(repayments) from/(of) borrowings		(848,972)	652,092
Repayment of lease liabilities (including interest)		<u>(83,015)</u>	<u>(67,328)</u>
Net cash from financing activities		<u>7,006,896</u>	<u>1,734,764</u>
Net increase in cash and cash equivalents		3,273,497	216,627
Cash and cash equivalents at the beginning of the financial period		1,952,842	302,092
Effects of exchange rate changes on cash and cash equivalents		<u>(105,648)</u>	<u>(31,879)</u>
Cash and cash equivalents at the end of the financial period		<u><u>5,120,691</u></u>	<u><u>486,840</u></u>

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

Note 1. General information

The financial statements cover X2M Connect Limited as a consolidated entity consisting of X2M Connect Limited and the entities it controlled at the end of, or during, the period (referred to hereafter as “X2M” or as the “Group”). The financial statements are presented in Australian dollars, which is X2M Connect Limited's functional and presentation currency.

X2M Connect Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 1.01b, Building B,
18-24 Ricketts Road,
Mount Waverley VIC3149

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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 Group has incurred a loss after tax of \$6,521,437 during the half year ended 31 December 2021 (2020: loss of \$2,326,511), net cash outflows from operations of \$3,260,233 (2020: net outflow of \$982,571) and at 31 December 2021 had cash and cash equivalents of \$5,120,691 (30 June 2021 \$1,952,842).

During the period, the Group completed a successful Initial Public Offering to list on the Australian Securities Exchange raising \$8,000,000 (before transaction costs). The Group's trading performance during the period is broadly in line with management's expectations and consistent with a clear strategy to invest in growth. The growth strategy is working as shown by the growth in top-line revenue in the first half compared to the corresponding period. Cash flow forecasts prepared by management indicate that the Group will have sufficient funds to meet commitments over the next twelve months from the date of this report. These cashflow projections assume the Group's ability to achieve sales and prudent control on expenditure. If required, the Group has the ability to seek additional capital by one of, or a combination of, the following: placement of shares, pro-rata issue to shareholders and/or further issue of shares to public.

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

Note 2. Significant accounting policies (continued)

In the event that the cash flow forecasts are not achieved or, if required, the Group is unable to obtain capital, 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 3. Critical accounting judgements, estimates and assumptions

The preparation of 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 of assumptions and estimates are:

Initial Public Offering (IPO) costs

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. The COVID-19 pandemic had limited impact on X2M in the first half of 2022 financial year. The Company currently services the utility sector, which is relatively immune to external influences, including the pandemic. Because the utility sector remained operational, the Company was able to continue servicing customers and developing the sales pipeline. Management also adopted several proactive strategies that included establishing a virtual management operating rhythm, very tight control of discretionary expenses, and a number of supply chain initiatives to minimise any potential impact.

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Revenue from contracts with customers

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

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

Allowance for expected credit losses

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

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

Impairment of non-financial assets

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

Note 4. Operating segments

Identification of reportable operating segments

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

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

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

Intersegment transactions

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

Intersegment receivables, payables and loans

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

Major customers

During the half year ended 31 December 2021, three customers from South Korea contributed \$2,544,219, representing 55% of total external revenues. One customer from China contributed \$1,353,546 representing 30% of total external revenues.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 31 December 2021	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Revenue					
Sales to external customers	2,816,467	1,353,546	202,613	212,696	4,585,322
Intersegment sales	8,192	-	-	-	8,192
Total sales revenue	2,824,659	1,353,546	202,613	212,696	4,593,514
Other income	7,178	163	11,577	159,353	178,271
Total segment revenue	2,831,837	1,353,709	214,190	372,049	4,771,785
Intersegment eliminations					(8,192)
Total revenue and other income					4,763,593
Adjusted EBITDA*	(875,332)	(72,090)	(429,369)	(1,648,934)	(3,025,725)
Depreciation and amortisation	(398,408)	(46,878)	(10,360)	(161,240)	(616,886)
Adjusted EBIT*	(1,273,740)	(118,968)	(439,729)	(1,810,174)	(3,642,611)
<i>Unallocated</i>					
Share based payments**					(1,935,268)
IPO expenses***					(866,327)
Finance costs					(62,231)
Income tax expense					(15,000)
Loss after income tax expense					(6,521,437)
Assets					
Segment assets	3,481,670	336,468	428,649	6,439,646	10,686,433
Total assets					10,686,433
Liabilities					
Segment liabilities	3,423,133	244,419	148,978	1,876,984	5,693,514
Total liabilities					5,693,514

* Adjusted EBITDA is a non-IFRS measure calculated as earnings before income tax, and before depreciation and amortisation, finance costs, share based payments and one-off expenses. The Board assesses the underlying performance of the business based on measures of Adjusted EBITDA and Adjusted EBIT which excludes the effect of non-operating and non-recurring items.

** Share based payments expense relate to non-cash options issued under the Employee Incentive Plan.

*** IPO expenses are non-recurring in nature.

X2M Connect Limited
Notes to the financial statements
31 December 2021

Note 4. Operating segments (continued)

	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Consolidated - 31 December 2020					
Revenue					
Sales to external customers	2,299,914	323,476	421,052	147,789	3,192,231
Other income	40	76	-	413,067	413,183
Total revenue and other income	<u>2,299,954</u>	<u>323,552</u>	<u>421,052</u>	<u>560,856</u>	<u>3,605,414</u>
Adjusted EBITDA	(175,860)	(19,558)	(378,448)	(782,064)	(1,355,930)
Depreciation and amortisation	(408,301)	(34,287)	(10,962)	(162,113)	(615,663)
Adjusted EBIT	<u>(584,161)</u>	<u>(53,845)</u>	<u>(389,410)</u>	<u>(944,177)</u>	<u>(1,971,593)</u>
<i>Unallocated</i>					
IPO expenses					(248,517)
Finance costs					(34,972)
Income tax expense					(71,429)
Loss after income tax expense					<u>(2,326,511)</u>
Consolidated - 30 June 2021					
Assets					
Segment assets	2,064,136	824,901	333,795	3,712,799	6,935,631
Total assets					<u>6,935,631</u>
Liabilities					
Segment liabilities	3,006,383	1,031,528	650,568	2,061,932	6,750,411
Total liabilities					<u>6,750,411</u>

Note 5. Revenue

	Consolidated	
	31 December 2021	31 December 2020
	\$	\$
Platform subscriptions revenue*	722,563	737,005
Hardware sales	3,770,505	2,357,666
Proof of concepts and development services revenue	92,254	97,560
Revenue	<u>4,585,322</u>	<u>3,192,231</u>

*Prior year platform subscriptions revenue included \$95,259 for a one-off platform installation for a municipality in South Korea. Platform subscription revenue includes SaaS, maintenance and support revenues.

Note 5. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	
	31 December 2021	31 December 2020
	\$	\$
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	3,770,505	2,357,666
Services transferred over time	814,817	834,565
	<u>4,585,322</u>	<u>3,192,231</u>

Note 6. Share based payments expense

Reconciliation of share based payments expense recorded in the statement of profit or loss and other comprehensive income relating to each class of share based payment:

	Consolidated	
	31 December 2021	31 December 2020
	\$	\$
Unquoted options issued to key management personnel	1,655,486	-
Unquoted options issued to employees	93,944	-
Issue of incentive shares to a key management personnel	185,838	-
	<u>1,935,268</u>	<u>-</u>

Note 7. Other assets

	Consolidated	
	31 December 2021	30 June 2021
	\$	\$
<i>Current assets</i>		
Research and development tax credit receivables	576,727	905,895
Prepayments	865,593	501,078
Other assets	-	99,626
	<u>1,442,320</u>	<u>1,506,599</u>
<i>Non-current assets</i>		
Deposits	169,578	128,021
	<u>1,611,898</u>	<u>1,634,620</u>

Note 8. Intangible assets

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$	\$
<i>Non-current assets</i>		
Intellectual property, patents and copyright - at cost	1,610,855	1,610,855
Less: Accumulated amortisation	(610,031)	(448,943)
	<u>1,000,824</u>	<u>1,161,912</u>
Intellectual property in progress - at cost	1,573,499	1,034,775
	<u>2,574,323</u>	<u>2,196,687</u>

Reconciliations

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

	Intellectual property, patents and copyright \$	Intellectual property in progress \$	Total \$
Consolidated			
Balance at 1 July 2021	1,161,912	1,034,775	2,196,687
Capitalisation of expenses (net of exchange differences and tax credits)	-	538,724	538,724
Amortisation expense	(161,088)	-	(161,088)
Balance at 31 December 2021	<u>1,000,824</u>	<u>1,573,499</u>	<u>2,574,323</u>

Note 9. Contract liabilities

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$	\$
<i>Current liabilities</i>		
Contract liabilities	<u>2,607,267</u>	<u>1,070,696</u>

Reconciliation

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

Opening balance	1,070,696	7,798
Payments received in advance	2,511,290	1,743,604
Transfer to revenue - other balances	(974,719)	(680,706)
Closing balance	<u>2,607,267</u>	<u>1,070,696</u>

X2M Connect Limited
Notes to the financial statements
31 December 2021

Note 10. Issued capital

	Consolidated			
	31 December 2021 Shares	30 June 2021 Shares	31 December 2021 \$	30 June 2021 \$
Ordinary shares - fully paid	<u>140,101,536</u>	<u>88,062,050</u>	<u>19,298,660</u>	<u>9,412,958</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2021	88,062,050		9,412,958
Issue of incentive shares to a key management personnel	2 July 2021	5,219,448	\$0.125	652,431
Issue of incentive shares to a key management personnel	14 July 2021	1,486,704	\$0.125	185,838
Issue of shares on conversion of convertible notes	14 July 2021	13,333,334	\$0.150	2,000,000
Issue of shares upon completion of the Public Offer	14 September 2021	32,000,000	\$0.250	8,000,000
Options issued as consideration for Public Offer services		-	-	(390,025)
Share issue transaction costs		-	-	(562,542)
Balance	31 December 2021	<u>140,101,536</u>		<u>19,298,660</u>

Note 11. Reserves

	Consolidated	
	31 December 2021 \$	30 June 2021 \$
Foreign currency reserve	(280,447)	(236,857)
Share-based payments reserve	<u>2,139,455</u>	<u>652,431</u>
	<u>1,859,008</u>	<u>415,574</u>

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

Consolidated	Foreign currency reserve \$	Share-based payments reserve \$	Total \$
Balance at 1 July 2021	(236,857)	652,431	415,574
Foreign currency translation	(43,590)	-	346,435
Transfer to issued capital	-	(652,431)	(652,431)
Options issued as consideration for Public Offer services	-	390,025	(390,025)
Share based payments expense	-	<u>1,749,430</u>	<u>1,749,430</u>
Balance at 31 December 2021	<u>(280,447)</u>	<u>2,139,455</u>	<u>1,859,008</u>

Note 12. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2021.

As foreshadowed in section 11.1 of the Replacement Prospectus issued by X2M dated 24 August 2021 (Replacement Prospectus), the plaintiffs in the legal proceedings involving Freestyle Technology Limited (Freestyle) have obtained leave of the Court to join X2M Connect Limited to those proceedings following their payment into Court of the required security for costs. X2M did not object to being joined to these proceedings. A directions hearing is set for the 6 May 2022.

As disclosed in the Replacement Prospectus, those legal proceedings were commenced against Freestyle (the vendor who sold its assets to the Company through a liquidation sale) and other defendants in May 2019. X2M did not exist at this time and will vigorously defend any claim against it. Furthermore, if the plaintiff's claims are ultimately successful (which the Company considers is very unlikely), the Company believes that the appropriate assessment of quantum is nil, and therefore the risk to the Company and Shareholders is not material.

The Company will update shareholders with any material developments in the proceedings.

Note 13. Related party transactions

Parent entity

X2M Connect Limited is the parent entity.

Transactions with related parties

Michael An is a Director of Perle Ventures Pty Ltd and was a Director of X2M Connect Limited until 12 February 2021. As at 30 June 2021, there was an outstanding borrowing of \$329,460 from Perle Ventures Pty Ltd which was extinguished on 26 July 2021.

Receivable from and payable to related parties

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

Loans to/from related parties

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

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$	\$
Current receivables:		
Loan to other related party*	-	100,000
Current borrowings:		
Other borrowings - Perle Ventures Pty Ltd	-	329,460

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

Terms and conditions

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

Note 14. Events after the reporting period

On 25 January 2022, the Company announced that it had secured a new SaaS and maintenance contract for the South Korean municipality of Gochang. The contract is for three years of remote water monitoring and is worth approximately A\$1.0 million over the contract term.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 15. Earnings per share

	Consolidated	
	31 December 2021	31 December 2020
	\$	\$
Loss after income tax attributable to the owners of X2M Connect Limited	<u>(6,521,437)</u>	<u>(2,326,511)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>102,463,786</u>	<u>50,800,480</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>102,463,786</u>	<u>50,800,480</u>
	Cents	Cents
Basic earnings per share	(6.36)	(4.58)
Diluted earnings per share	(6.36)	(4.58)

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

X2M Connect Limited
Directors' declaration
31 December 2021

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 2021 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

A handwritten signature in black ink, appearing to read 'Alan Stockdale', written in a cursive style.

Hon. Alan Stockdale AO
Non-Executive Chairman

23 February 2022

Independent Auditor's Review Report

To the Members of X2M Connect Limited

Report on the review of the half-year financial report

Conclusion

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 2021, and 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 the Group does not comply with the Corporations Act 2001 including:

- a Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half year ended on that date; and
- b Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for Conclusion

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 Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the 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 2 in the financial report, which indicates that the Group incurred a net loss of \$6,521,437 during the half year ended 31 December 2021 and, net cash outflows from operations of \$3,260,233. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

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 is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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, 23 February 2022