

1. Company details

Name of entity:	X2M Connect Limited
ACN:	637 951 154
Reporting period:	For the period ended 31 December 2022
Previous period:	For the period ended 31 December 2021

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	95.7% to	8,973,674
Loss from ordinary activities after tax attributable to the owners of X2M Connect Limited	down	55.0% to	(2,935,983)
Loss for the period attributable to the owners of X2M Connect Limited	down	55.0% to	(2,935,983)

Dividends

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

Key points

The first half of the 2023 financial year was a strong one for X2M with the Company's strategy delivering results. Key operational metrics compared to the prior corresponding period (pcp) ended 31 December 2021 were:

- Revenues from ordinary activities were \$9.0 million, up 96% on the pcp
- 16 new enterprise and government customers were acquired bringing the total customer base to 58, an increase of 38% on the pcp
- Total connected devices increased to 361,345, up 100% on the pcp

Group Commentary

The 1H23 results reflect the outcomes of the Company's strategy of securing customers with large numbers of households, increasing our share of the total addressable market (TAM) of customers, continuing to grow recurring SaaS and maintenance revenues and moving into new markets where suitable. The loss for the Group after income tax amounted to \$2.9 million (31 December 2021: loss of \$6.5 million).

Revenue was \$9.0 million, up 96% on the pcp, reflecting significant organic growth across all operating jurisdictions. South Korean operations continued to perform well, driven by Korea Water Corporation deployments, deeper penetration into existing customers' addressable markets and a number of new municipalities coming on board. Taiwan continued its progress as the Group's incubation hub securing repeat orders from Electronic Testing and Certification Center (ETC) for energy management solutions and Great Tainan Gas Company for gas monitoring, together with a new customer order from the National Chung Cheng University (CCU) for the delivery of a smart water resources management system for the university campus. As with the ETC and Great Tainan solutions, the CCU product can also be taken into other markets. The China market, which the Group entered in 2021, made good progress earning revenues of \$1.6 million for the period. The Group's total connected devices increased to 361,345 at 31 December 2022, adding approximately 116,000 connected devices to its patented software platform over the period, and representing 100% growth from 31 December 2021.

Cost of sales was \$6.8 million, up 86% on the pcp, or \$3.1 million, driven by increased sales volumes as described above.

Gross profit margin improved to 25%, up from 20% in the pcp. This was mainly attributable to improved margins from South Korea and China operations.

Operating expenses were \$4.7 million up 13% on pcp. The increase was primarily driven by:

X2M Connect Limited
Appendix 4D
Half-year report

- \$0.3 million in employee benefits and staff costs to support growth in customer numbers
- \$0.5 million in other expenses, mainly attributable to product remediation and upgrade, and travel due to increased deployment activities in South Korea
- Partly offset by reduction in professional fees of \$0.2 million primarily due to lower legal fees

Non-cash share based payments were \$0.2 million (pcp: \$1.9 million).

Financial position

The Group's cash and cash equivalents as at 31 December 2022 were \$3.1 million, an increase of \$2.0 million from 30 June 2022, mainly attributable to \$3.97 million (before costs) raised from the Entitlement Offer offset by operating spend.

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>(0.24)</u>	<u>(0.68)</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 2022 is attached.

12. Signed

Signed  _____

Date: 28 February 2023

Hon. Alan Stockdale AO
Non-Executive Chairman
Melbourne

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Half Year Financial Report

31 December 2022

www.x2mconnect.com

ACN 637 951 154

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Key Notes:

- All currency is reported in Australian Dollars unless otherwise noted.
- PCP refers to the previous comparative period.

CORPORATE DIRECTORY

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 and X2MO)

Website

www.x2mconnect.com

Snapshot

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revenue

\$9.0m

up  96%

*on pcp

connected devices

361k

up  100%

*on pcp

customers:58

up  38%

*on pcp

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of X2M Connect Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2022.

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, unless otherwise stated:

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 in the utility sector across the Asia Pacific Region with offices in Australia, Japan, South Korea, Taiwan and China. The Company employed 59 people at the end of the period.

During the period, the principal continuing activities of the Group included:

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

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

As at 31 December 2022, X2M had 361,345 devices connected to its IoT platform and distributed intelligence solution. The X2M technology delivers real-time information and control for 58 enterprise and government customers across Asia Pacific while operating over multiple radio technologies and communication protocols.

Review of operations

The first half of the 2023 financial year was a strong one for X2M. The Company's strategy to "land and expand" is working as market and customer penetration continues to grow.

Key highlights for the Group for the half year ended 31 December 2022 include:

- Revenue \$9.0 million, up 96% on the pcip
- Adjusted EBITDA loss \$2.1 million, down 30% on the pcip
- Loss after tax of \$2.9 million, down 55% on the pcip
- Connected devices 361,345, up 100% on the pcip
- Number of enterprise customers 58, up 38% on the pcip
- Cash at bank \$3.1 million
- Total assets \$13.6 million, up 67% from 30 June 2022
- Net assets \$2.5 million, up 59% from 30 June 2022

The following table summarises key reconciling items between the statutory after-tax result attributable to the shareholders of the Company and adjusted EBITDA*:

	Consolidated 31 December 2022 \$	31 December 2021 \$
Loss after income tax	(2,935,983)	(6,521,437)
Add: income tax expense	361	15,000
Add: Finance costs	96,511	62,231
Add: Depreciation and amortisation	511,545	616,886
Statutory EBITDA	(2,327,566)	(5,827,320)
Add: Share based payments expense**	212,555	1,935,268
Add: One off IPO costs	-	866,327
Adjusted EBITDA*	<u>(2,115,011)</u>	<u>(3,025,725)</u>

* 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 to employees.

Segment performance

South Korea

South Korea remains the largest market for X2M and achieved revenue of \$6.6 million, up 134% on the pcip.

During the period, X2M added 15 new customers and other contract wins in South Korea with a combined value of \$6.5 million. Continuing to win a number of these contracts confirms X2M's leadership position in the South Korean market. This aligns with the Company's long-term strategy to secure customers with large numbers of households that will drive future subscription revenues. The Total Addressable Market (TAM) of X2M customers has grown to nearly 50% of the water meter TAM in South Korea and repeat orders from many customers continue to increase X2M's share of the total addressable market of existing customers.

South Korea reported an adjusted EBIT loss of \$0.4 million (31 December 2021: \$1.3 million). This improvement was driven by an increased gross profit margin whilst maintaining a moderate increase in operating costs.

China

Despite the challenges with COVID-19 restrictions, China delivered revenue of \$1.6 million, up 20% on the pcip.

This included delivery of the contract for water meter contracts in Heibei province in China. As previously announced (ASX announcement 20 June 2022), the Qingyuan district of Baoding City is a new customer that saw the deployment of approximately 22,000 water meters. X2M also completed delivery of a contract for an additional approximately 5,000 water meters deployed in the Shunping county which is administered by Baoding City.

China reported an adjusted EBIT of \$0.0 million (31 December 2021: loss of \$0.1 million).

X2M Connect Limited
Directors' report
31 December 2022

Taiwan

Taiwan achieved revenue of \$0.5 million, up 145% on the pcp.

The revenue growth was mainly attributable to deployment of NBIoT devices to monitor and control residential gas meters as part of the Great Tainan project. X2M also delivered a second project for ETC. ETC is the "Taiwan Electronic Testing and Certification Center", a government-sponsored body that, amongst other things, advises policymakers on technology trends, technology solutions and public policy formulation. In FY22, X2M delivered a sustainable energy project to ETC including solar, the grid, and the ability to distribute energy to battery storage, EV charging, servicing many aspects of building energy management, and remotely controlling end devices such as air conditioners. The second project from ETC added an additional location with energy management plus the integration of gas and water monitoring on the same system. These projects form part of the X2M strategy to participate in the electricity utility ecosystem.

Taiwan reported an adjusted EBIT loss of \$0.4 million (31 December 2021: \$0.4 million).

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 \$0.3 million, up 29% on the pcp; and an adjusted EBIT loss of \$1.8 million (31 December 2021: \$1.8 million).

In Japan, X2M continued to grow connected devices under a licensing arrangement. Total connected devices in Japan at 31 December 2022 reached 200,174, an increase of 106% from 31 December 2021.

\$0.2 million of non-cash share based payments were incurred, mainly attributable to options issued to key management personnel and employees under the Group's incentive plan.

Significant changes in the state of affairs

In August 2022, the Company successfully completed a 1-for-3 Accelerated Non-Renounceable Entitlement Offer (Entitlement Offer). A total of 46,700,703 shares were issued at \$0.085 (8.5 cents) per share, raising \$3.97 million (before costs). Participating shareholders also received one free attaching option with an exercise price of \$0.16 (16 cents) for every two new X2M shares taken up under the Entitlement Offer with a total of 23,350,397 options issued and these are listed on the Australian Securities Exchange.

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

No matter or circumstance has arisen since 31 December 2022 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 per the announcement to ASX dated 30 November 2021, the plaintiffs in the legal proceedings involving Freestyle Technology Limited (Freestyle) obtained leave of the Court to join X2M Connect Limited to those proceedings without objection from X2M. A directions hearing is scheduled on or after 21 April 2023.

As disclosed in the Replacement Prospectus issued by X2M dated 24 August 2021, 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.

X2M Connect Limited
Directors' report
31 December 2022

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

A handwritten signature in black ink, appearing to read 'Alan Stockdale', is positioned above a horizontal line.

Hon. Alan Stockdale AO
Non-Executive Chairman

28 February 2023

Grant Thornton Audit Pty Ltd
Level 22 Tower 5
Collins Square
727 Collins Street
Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001
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Auditor's Independence Declaration

To the Directors of X2M Connect Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of X2M Connect Limited for the half-year ended 31 December 2022, 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 review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 28 February 2023

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X2M Connect Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2022

		Consolidated	
		31	31
	Note	December	December
		2022	2021
		\$	\$
Revenue	5	8,973,674	4,585,322
Other income		373,944	178,271
Total revenue and other income		<u>9,347,618</u>	<u>4,763,593</u>
Expenses			
Cost of sales		(6,777,467)	(3,652,123)
Employee benefits expense		(2,799,425)	(2,539,056)
Share based payments expense	6	(212,555)	(1,935,268)
Depreciation and amortisation expense		(511,545)	(616,886)
Finance costs		(96,511)	(62,231)
Short-term lease expenses		(22,390)	(30,941)
Other expenses	7	(1,426,706)	(973,191)
Professional fees		(436,641)	(594,007)
IPO expenses		-	(866,327)
Total expenses		<u>(12,283,240)</u>	<u>(11,270,030)</u>
Loss before income tax expense		(2,935,622)	(6,506,437)
Income tax expense		<u>(361)</u>	<u>(15,000)</u>
Loss after income tax expense for the period attributable to the owners of X2M Connect Limited		(2,935,983)	(6,521,437)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(28,863)</u>	<u>(43,590)</u>
Other comprehensive income for the period, net of tax		<u>(28,863)</u>	<u>(43,590)</u>
Total comprehensive income for the period attributable to the owners of X2M Connect Limited		<u><u>(2,964,846)</u></u>	<u><u>(6,565,027)</u></u>
		Cents	Cents
Basic earnings per share		(1.95)	(6.36)
Diluted earnings per share		(1.95)	(6.36)

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 2022

Note	Consolidated	
	31 December 2022 \$	30 June 2022 \$
Assets		
Current assets		
	3,050,498	1,020,020
	1,296,674	241,489
	255,593	796,228
	611,500	135,135
	3,587,039	2,054,133
8	8,801,304	4,247,005
Non-current assets		
	586,058	627,622
9	3,457,593	3,095,854
8	780,650	201,972
	4,824,301	3,925,448
Total assets	13,625,605	8,172,453
Liabilities		
Current liabilities		
	3,633,001	2,236,186
	3,903,400	2,203,139
	1,910,302	558,476
	230,279	243,075
	802,639	739,164
	10,479,621	5,980,040
Non-current liabilities		
	315,269	340,380
	360,664	296,341
	675,933	636,721
Total liabilities	11,155,554	6,616,761
Net assets	2,470,051	1,555,692
Equity		
10	22,959,925	19,293,275
	2,325,201	2,141,509
	(22,815,075)	(19,879,092)
Total equity	2,470,051	1,555,692

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 2022

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	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>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2022	19,293,275	2,141,509	(19,879,092)	1,555,692
Loss after income tax expense for the period	-	-	(2,935,983)	(2,935,983)
Other comprehensive income for the period, net of tax	-	(28,863)	-	(28,863)
Total comprehensive income for the period	-	(28,863)	(2,935,983)	(2,964,846)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 10)	3,666,650	-	-	3,666,650
Share based payments	-	212,555	-	212,555
Balance at 31 December 2022	<u>22,959,925</u>	<u>2,325,201</u>	<u>(22,815,075)</u>	<u>2,470,051</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 2022

Note	Consolidated	
	31 December 2022 \$	31 December 2021 \$
Cash flows from operating activities		
Receipts from customers and other sources	11,254,554	6,841,217
Payments to suppliers and employees (inclusive of GST)	(12,214,094)	(10,101,450)
Net cash used in operating activities	(959,540)	(3,260,233)
Cash flows from investing activities		
Payments for property, plant and equipment	(2,409)	(6,045)
Payments for intangibles	(1,224,002)	(375,954)
Payments for security deposits	(563,540)	(91,167)
Net cash used in investing activities	(1,789,951)	(473,166)
Cash flows from financing activities		
Proceeds from issue of shares	10 3,969,562	8,000,000
Share issue transaction costs	(346,544)	(561,117)
Proceeds from convertible notes	-	500,000
Net proceeds/(repayments) from/(of) borrowings	1,217,501	(848,972)
Repayment of lease liabilities (including interest)	(127,803)	(83,015)
Net cash from financing activities	4,712,716	7,006,896
Net increase in cash and cash equivalents	1,963,225	3,273,497
Cash and cash equivalents at the beginning of the financial period	1,020,020	1,952,842
Effects of exchange rate changes on cash and cash equivalents	67,253	(105,648)
Cash and cash equivalents at the end of the financial period	<u>3,050,498</u>	<u>5,120,691</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 VIC 3149

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 28 February 2023.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 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 2022 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 consolidated financial report has been prepared on a going concern basis which contemplates continuity of normal business activities, funding of operating activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has incurred a loss after tax of \$2,935,983 during the half year ended 31 December 2022 (2021: loss of \$6,521,437), net cash outflows from operating and investing activities of \$2,749,491 (2021: net outflow of \$3,733,399). As at 31 December 2022 the Group had net assets of \$2,470,051 (30 June 2022: \$1,555,692) and had a working capital deficiency, being current assets less current liabilities, of \$1,678,317 (30 June 2022: \$1,733,035).

Note 2. Significant accounting policies (continued)

During the period, the Group successfully completed an Entitlement Offer, raising \$3,970,000 before costs. Proceeds from the Offer were utilised to fund strategic initiatives and operating activities. 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 growth 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.

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:

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 a limited impact on X2M in the first half of 2023 financial year. 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 contracts outcome and progress towards completion of performance obligations. Changes in estimates related to service revenue are recorded as an increase or decrease to revenue in the period that the changes are identified.

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

Allowance for expected credit losses

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

Impairment of non-financial assets

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

Note 4. 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 and software revenue and platform subscription and maintenance 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 2022, seven customers from South Korea contributed \$5,374,707, representing 60% of total external revenues. One customer from China contributed \$1,375,210 representing 15% of total external revenues.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 31 December 2022	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Revenue					
Sales to external customers	6,579,249	1,623,360	495,919	275,146	8,973,674
Intersegment sales	321,527	-	-	328,125	649,652
Total sales revenue	6,900,776	1,623,360	495,919	603,271	9,623,326
Other income	62,048	5,276	89	306,531	373,944
Total segment revenue	6,962,824	1,628,636	496,008	909,802	9,997,270
Intersegment eliminations					(649,652)
Total revenue and other income					9,347,618
Adjusted EBITDA*	(339,868)	34,612	(379,681)	(1,430,074)	(2,115,011)
Depreciation and amortisation	(56,698)	(45,501)	(9,928)	(399,418)	(511,545)
Adjusted EBIT*	(396,566)	(10,889)	(389,609)	(1,829,492)	(2,626,556)
<i>Unallocated</i>					
Share based payments**					(212,555)
Finance costs					(96,511)
Income tax expense					(361)
Loss after income tax expense					(2,935,983)
Assets					
Segment assets	4,991,348	1,238,804	702,798	6,692,655	13,625,605
Total assets					13,625,605
Liabilities					
Segment liabilities	5,759,399	1,010,270	451,990	3,933,895	11,155,554
Total liabilities					11,155,554

Note 4. Operating segments (continued)

	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Consolidated - 31 December 2021					
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)
Consolidated - 30 June 2022					
Assets					
Segment assets	2,374,285	213,188	270,562	5,314,418	8,172,453
Total assets					8,172,453
Liabilities					
Segment liabilities	3,391,293	170,642	163,551	2,891,275	6,616,761
Total liabilities					6,616,761

* 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 to employees.

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

Note 5. Revenue

	Consolidated	
	31 December 2022 \$	31 December 2021 \$
SaaS and maintenance revenue	558,678	722,563
Hardware sales	8,321,678	3,770,505
Professional service fees	93,318	92,254
Revenue	8,973,674	4,585,322

Note 5. Revenue (continued)

Disaggregation of revenue

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

	Consolidated 31 December 2022 \$	31 December 2021 \$
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	8,321,678	3,770,505
Services transferred over time	651,996	814,817
	<u>8,973,674</u>	<u>4,585,322</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 2022 \$	31 December 2021 \$
Unquoted options issued to key management personnel	42,273	1,655,486
Unquoted options issued to employees	170,282	93,944
Issue of incentive shares to a key management personnel	-	185,838
	<u>212,555</u>	<u>1,935,268</u>

Note 7. Other expenses

	Consolidated 31 December 2022 \$	31 December 2021 \$
Advertising and marketing	132,791	54,120
Product remediation and upgrade	385,224	260,715
Subscriptions	131,363	81,346
Telephone expenses	170,471	127,182
Travel costs	268,819	148,032
Other administrative expenses	338,038	301,796
	<u>1,426,706</u>	<u>973,191</u>

Note 8. Other assets

	Consolidated	
	31 December 2022 \$	30 June 2022 \$
<i>Current assets</i>		
Research and development tax credit receivables	1,969,565	1,314,897
Prepayments	1,617,474	739,236
	<u>3,587,039</u>	<u>2,054,133</u>
<i>Non-current assets</i>		
Deposits	780,650	201,972
	<u>4,367,689</u>	<u>2,256,105</u>

Note 9. Intangible assets

	Consolidated	
	31 December 2022 \$	30 June 2022 \$
<i>Non-current assets</i>		
Intellectual property, patents and copyright - at cost	3,808,628	3,808,628
Less: Accumulated amortisation	(1,169,235)	(812,786)
	<u>2,639,393</u>	<u>2,995,842</u>
Intellectual property in progress - at cost	818,200	100,012
	<u>3,457,593</u>	<u>3,095,854</u>

Reconciliations

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

Consolidated	Intellectual property, patents and copyright \$	Intellectual property in progress \$	Total \$
Balance at 1 July 2022	2,995,842	100,012	3,095,854
Capitalisation of expenses (net of exchange differences and tax credits)	-	718,188	718,188
Amortisation expense	(356,449)	-	(356,449)
Balance at 31 December 2022	<u>2,639,393</u>	<u>818,200</u>	<u>3,457,593</u>

Note 10. Issued capital

	31 December 2022 Shares	Consolidated 30 June 2022 Shares	31 December 2022 \$	30 June 2022 \$
Ordinary shares - fully paid	186,802,239	140,101,536	22,959,925	19,293,275

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2022	140,101,536		19,293,275
Issue of shares at closing of the Entitlement Offer	1 August 2022	26,588,104	\$0.085	2,259,989
Issue of shortfall shares under the Entitlement Offer	19 August 2022	15,628,241	\$0.085	1,328,400
Issue of shares on completion of the Entitlement Offer	25 August 2022	4,484,358	\$0.085	381,170
Share issue transaction costs		-	-	(302,909)
Balance	31 December 2022	186,802,239		22,959,925

Note 11. Contingent liabilities

The Directors are not aware any contingent assets or contingent liabilities as at 31 December 2022 (2021: Nil).

As per the announcement to ASX dated 30 November 2021, the plaintiffs in the legal proceedings involving Freestyle Technology Limited (Freestyle) obtained leave of the Court to join X2M Connect Limited to those proceedings without objection from X2M. A directions hearing is scheduled on or after 21 April 2023.

As disclosed in the Replacement Prospectus issued by X2M dated 24 August 2021, 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 12. Related party transactions

Parent entity

X2M Connect Limited is the parent entity.

Transactions with related parties

During the period, X2M paid \$7,000 for social media, designed and other supporting services from Azimbo Consulting Pty Ltd (an entity associated with Keith Jelley, X2M Chief Operating Officer). The transactions were made on normal commercial terms.

Receivable from and payable to related parties

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

Note 12. Related party transactions (continued)

Loans to/from related parties

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

	Consolidated	
	31 December 2022 \$	30 June 2022 \$
Current borrowings:		
Loan from other related party*	57,526	32,522

* During the half year ending 31 December 2022, an employee from X2M's Taiwan subsidiary provided a loan to the company. There was no interest payable on the loan and it was subsequently repaid in January 2023.

Terms and conditions

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

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2022 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 2022

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Hon. Alan Stockdale AO
Non-Executive Chairman

28 February 2023

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Independent Auditor's Review Report

To the Members of X2M Connect Limited

Report on 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 2022, 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 X2M Connect Limited 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 2022 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 reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group has incurred a loss after tax of \$2,935,983 during the half year ended 31 December 2022, net cash outflows from operating and investing activities of \$2,749,491. As at 31 December 2022, the Group had net assets of \$2,470,051 and had a working capital deficiency, being current assets less current liabilities, of \$1,678,317. 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

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 financial position as at 31. December 2022 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, 28 February 2023

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